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Member Voice and Influence: A Study of Cooperative Governance in the Australasian Dairy Industry

A thesis
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of the requirements for the degree
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*I lift up my eyes to the mountains—
where does my help come from?
My help comes from the Lord,
the Maker of heaven and earth.
(Ps 121:1-2)*

Thesis Abstract

Member governance can be characterised as the *voice and influence* that members have in their cooperative. The *voice* is related to the tangible control mechanisms available to cooperative members, and the *influence* ingredient is more often the intangible relational aspect of a member's connection. There are layers of governance that build on each other to form the foundation of cooperative members rights or *voice and influence*; these include Cooperative Principles, Cooperative Law, and the Cooperative Constitutional Document. The collective aim is to mitigate many of the known cooperative governance challenges. Notwithstanding all the theoretical layers of governance, the actual members' perceptions and the reality of their participation in their cooperative can affect the quality of member governance in a cooperative.

The cooperative principles are the foundational ingredient for member-organisation governance. In many regions, the principles are applied in the creation of cooperative law. In some regions countries base their legislation fully or partially on the International Cooperative Alliance (ICA) set of seven principles; other regions engage with a different set of principles such as the United States Department of Agriculture (USDA) set of three principles, while in other countries the link between cooperative law and cooperative principles is less visible.

An examination of which principles are employed in constructing the legislation that governs cooperatives in a particular region is crucial as it provides us with a base for analysis. Cooperative law differs from country to country, with some cooperative law being comprehensive while other countries cooperative laws are not well defined. The answer as to which approach is more effective is examined in this thesis.

Similarly, cooperative law usually forms the foundation that mandates provisions in the originating document, the cooperative constitution. The purpose of the constitution is to protect the rights of cooperative members at a higher level. It is usually tailored for each cooperative; however, the base provisions that are mandated within the cooperative law are often common. A sample of Australasian cooperatives is used to analyse and discover how the law influences member rights.

Notwithstanding the layers of protection afforded to members, it is widely acknowledged that cooperatives face governance challenges. Besides common governance challenges that affect most organisational forms, cooperatives confront other unique problems. The combination of cooperative principles, law, and the constitutional document is, in essence, the cooperative policy framework for an individual cooperative within a specific country. In theory, the application of the framework should

significantly mitigate most cooperative governance challenges. An analysis of the level of mitigation is necessary to understand the effectiveness of the Australasian cooperative policy frameworks.

Apart from the rights of cooperative members, the actual engagement that a member has with their cooperative can mitigate shortcomings in both *voice and influence*. The relationship that a member has with their cooperative is an essential aspect of governance in that good engagement can overcome poor governance processes while the converse is not always true. An in-depth understanding of member views, perceptions, and requirements is essential for those seeking to develop an effective engagement structure that can overcome governance shortcomings within dairy cooperatives in Australasia. This thesis explores the experience of the governance environment through the member-lens, specifically to understand the strengths and weaknesses of each cooperative's governance and engagement model when compared to the other dairy cooperatives in this study.

This thesis analyses each of the supporting governance layers that contribute to maximising member *voice and influence* to answer the overarching research questions: *What are the governance challenges and opportunities facing Australasian dairy cooperatives, and what governance elements contribute to an effective cooperative governance framework?* Furthermore, the thesis seeks to answer fundamental cooperative member governance questions; Do the principles support the law when used in crafting policy for cooperatives? Does the law protect the members' rights to the extent that was the original intention of the policymakers? Does the constitutional document have the correct provisions, and are these mandated, to protect the members' voice? Do these layers of governance collectively mitigate the challenges that might contribute to a decline in the cooperative? Finally, what are the governance and engagement perceptions of members on their *voice and influence*, and how well is this functioning in Australasia?

There is little research that seeks to understand the role of cooperative principles and policy in the governance of a cooperative and what the reality of cooperative member participation is in Australasian dairy cooperative governance. This thesis contributes to the theoretical understanding of how cooperative principles influence the law and the associated governance documents to minimise the governance challenges of cooperatives. Additionally, this thesis contributes to a practical understanding of the effectiveness of the implementation of cooperative governance in the Australasian dairy context through the member-lens.

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1. Chapter-1: Thesis Introduction

The Cooperative Organisational Form

1.1 Background

Cooperatives are a common business form, especially in specific sectors such as agriculture. In these sectors, they are a significant proportion of the business population and sometimes dominate the traditional IOF, which have a greater presence in other sectors of the economy. Cooperatives play a vital role in the global economy, with the top 300 cooperative's turnover exceeding USD \$2 trillion (International Cooperative Alliance, 2019). Of the total revenue previously stated, agricultural cooperatives contributed circa 31% of the total revenue, or just over USD \$620 billion (International Cooperative Alliance, 2019). The top-100 Australian cooperative and mutual enterprises contribution generated more than AUD \$31 billion, with over 31 million members participating. Australian cooperative dairy revenue exceeded AUD \$880 million in the 2019 season (ADFC, 2019; DFMC, 2019, NORCO, 2019) and New Zealand dairy industry export revenue for 2018-2019 exceeded NZD \$18 billion ("QuickStats about dairying – New Zealand", 2019).

As dairy cooperatives are usually founded by the farmer-suppliers, these farmers initiate the setup of the initial operation with directors, and through the boards, the necessary staff to manage the operation. Therefore, the cooperative business structure must be established with sound governance principles to protect the farmer-owner interests.

In 2018, Murray Goulburn, which was the largest dairy cooperative in Australia at the time, was sold to a Canadian IOF. Some scholars believe that one of the central reasons for the failure was due to ineffective governance practices. Professor Mazzarol from the University of Western Australia published an article outlining the issues prior to the eventual collapse of the cooperative (Mazzarol, 2016). Furthermore, a few months after the interviews (see Chapter-5) of Westland cooperative members, which was an established dairy cooperative located on the West Coast of New Zealand's South Island, the cooperative was sold to a Chinese foreign dairy processing firm, Yili. Yet, there are many successful cooperatives such as those in Europe and Fonterra, New Zealand's largest commercial entity. This thesis explores some of the underlying factors that could contribute to the success or failure of a cooperative.

As many of the chapters in this thesis examine the dairy cooperative environment in Australasia, an inspection of the dairy cooperatives attributes is seen as pertinent information. The four New Zealand dairy cooperatives are Fonterra which is a large geographically dispersed cooperative enacted by legislation in 2001 (DIRA, 2001) with more than 10,000 members and annual revenue of NZD \$19 billion (Fonterra, 2017). As Fonterra was formed from the amalgamation of two large dairy cooperatives in 2001, as of 2020, the cooperative had operated for 19 years, however, each of the two cooperatives that had merged to form Fonterra operated for more than 100 years. Fonterra has a complex product mix, including consumer and ingredient products and has an international presence in more than 100 countries. Westland Milk Products is a cooperative located on the western coastal region of the South Island of New Zealand. In 2017 Westland had 430 members with annual revenue of NZD \$630 million (Westland, 2017). The cooperative has a product mix of consumer and ingredients. It has been in existence for more than 80 years. Following the data collection for this thesis in early 2019, Westland was bought out by Yili, a Chinese dairy corporation later that year. Tatua is a small centralised New Generation Cooperative (NGC) located in the Waikato which is mid-North Island of New Zealand with more than 100 members and revenue of NZD \$328 Million. Tatua has a product mix of consumer products and ingredients. Tatua has operated for more than 100 years. The Dairy Goat Cooperative (DGC) was included in this study as it falls under the policy provisions of New Zealand dairy cooperatives and some raw milk is provided for its manufacturing process from Fonterra under the provisions of DIRA (2001). DGC has more than 70 members and annual revenue of NZD \$180 million. It has operated in the mid-North Island region for more than 45 years (DGC, 2017). DGC has a product mix supplying both ingredients and consumer products.

The Australian Dairy cooperatives in this study include NORCO, a geographically dispersed cooperative with members located along the eastern states of Australia. NORCO has more than 210 members and has an annual revenue of AUD \$550 million (NORCO, 2017). NORCO has a product mix supplying both ingredients as well as consumer products and has operated for more than 120 years. DFMC is a geographically dispersed cooperative with more than 350 members and annual revenue of AUD \$132 million (DFMC, 2017). DFMC has operated for more than 110 years, taking into account the merged cooperatives that have over the years formed DFMC. DFMC has a simple product mix and supplied all the milk collected to a single

corporation, Lion Drinks and Dairy in 2017. In late 2019, the Lion Dairy products business was sold to Mengniu; a Chinese owned dairy corporation (Dairy Reporter, 2020) with the multi-year remaining contacts in place for DFMC. ADFC is the final Australian dairy cooperative in this study. It is a smaller, more centralised cooperative that operates in Victoria, it has more than 80 members and is actively adding to its membership following the demise of Murray Goulburn. It has a simple product mix and is contracted to supply milk to three retail organisations with which it has multi-year contracts.

Please refer to Table 3.2 and Table 3.3 in Chapter-3 for more detailed information on the seven Australasian cooperatives. One Australian small dairy cooperative was excluded from this study as they had just incorporated and were in the process of starting-up. It had less than 15 members in 2019.

1.2 Problem Statement

In an ideal cooperative, members are fully engaged and can rely on the effective implementation of cooperative principles in their cooperative law. Furthermore, the ideal cooperative operates without governance problems. The reality is that cooperative governance is perceived to be problematic by commentators in many regions (Österberg and Nilsson, 2007; Barraud-Didier et al., 2019), including Australasia (Mazzarol et al., 2019). This perception exists despite the International Cooperative Alliance principles supporting farmer governance through provisions for *Democratic member control* and *Member economic participation* (ICA, 2020). This suggests the translation of these principles into governance instruments is not always effective. Additionally, legislation and cooperative constitutions do not always offer robust governance mechanisms to protect the farmers as we are aware of residual governance issues after the application of the law and the cooperative constitutional document. The consequence of a weakness in cooperative governance is a distancing of farmer-members from the decisions that affect their farm-profitability, which can result in a diminishing cooperative performance through a loss of supply. Many decisions can be legitimately taken by the cooperative board and management without due regard to the long-term implications on farmer pay-out, income, and way of life. A possible cause of this problem is cooperative operational management believing they are working within their authority and not needing farmers to review pertinent decisions.

Exploration of governance is facilitated by precise definitions of terms. To that end governance is classified in terms of its role in, and impact on, the cooperative. Member governance is defined as the set of governance rights that members have available to apply in their cooperative membership; whereas cooperative governance is defined as the governance that the collective cooperative organisation can apply in the course of the operation in the wider environment. Member governance is linked to cooperative governance and vice versa as when a collection of member governance rights is applied, these can affect the internal operation of the cooperative and its governance. Similarly, when the cooperative organisation makes decisions that impact a member or a collection of members, this too can affect the member rights and governance. This thesis focuses on the member governance aspects; however, it does discuss the cooperative governance linkages where appropriate.

This thesis employs grounded theory to study cooperative governance through the lens of its members by examining the application of cooperative principles, the content of cooperative legislation, the member governance provisions of their respective cooperative constitutions (or rules), and the associated residual governance problems that these artefacts can cause. The synthesis resulting from the content analysis phase shaped the design of qualitative in-depth interviews with cooperative members to explore views on engagement and governance. Finally, the findings of the qualitative and content analysis phases will be used to develop a recommended course of action to enhance member governance. Member Governance is defined as the ability of a member to have his voice heard and includes voting, attendance, rejection, grievance procedure and others.

1.3 Thesis significance and contribution

Cooperatives are common business forms that are an alternative to the more common IOF. However, as these organisations have evolved, several issues have arisen. Research has found that the delegated structure of the cooperative governing bodies can move the decision making, or even information required for decision making, out of the farmers' reach (Reynolds, 1997; Adrian and Green, 2001; Bijman et al., 2012). Member decision-making hierarchy and the necessary governance structure of a cooperative is critical for members to retain control of their cooperative. Cooperative governance, as it pertains to member-owned businesses, has been studied by many researchers over the past decade (Cornforth, 2004; Franken and

Cook, 2013; Old, 2009). Much of the research has resulted in theoretical output such as: finding that agency theory issue exists in farmer cooperatives (Neto et al., 2009); financial issues exist in cooperative ownership (Chaddad and Cook, 2004); and information was found to be missing on the allocation of control rights (Chaddad and Iliopoulos, 2012). Other research (Birchall, 2014) into farmer governance shows that farmers are not always satisfied with how much input they have into the running of the cooperative. One research paper found that farmers believed they had more say when the cooperative was smaller (Alsemgeest and Smit, 2012). Again, in a study that looked into farmer involvement, it was found that farmers attached great importance to their participation in the cooperative governance (Osterberg and Nilsson, 2009). Shaw (2007) found that governance issues were more prevalent in sizeable cooperatives. In the same research, the author found that as cooperatives got more extensive and more complex, the members involvement in the governance of the cooperative diminished. A comparative advantages research paper found that member-owned businesses have an advantage over investor-owned except when farmers did not retain sufficient control over the running of the cooperative (Birchall, 2012).

Dairy cooperatives operate to supply and process raw milk into consumer and other products. A key aim of a dairy cooperative when it is formed is to maximise the long-term milk supply price received by its members. Dairy cooperatives, in addition to financial returns, usually supply other vertical services such as the manufacturing, distribution, and sales of the manufactured product (Reid, 2011). Through a democratic process, members of a cooperative are tasked with appointing the board of directors who, in turn, appoint the management which is then tasked with the day-to-day operation of the entity. However, members have a vested interest in any decisions that could alter the initial intent of the cooperative. For instance, any decision that could negatively impact the supply price (sometimes referred to as the "farm gate price") would be carefully examined, and any decisions that affect the financial viability of the cooperative such as asset debt leverage would be cautiously considered by the members. The farmers have multiple relationships with the cooperative being suppliers, owners, and members simultaneously (Ling, 2011). Unless the law and the constitutional documents of a cooperative explicitly states a variation to the above, most dairy cooperatives in Australasia are founded on a similar operating model which has been in existence for many years.

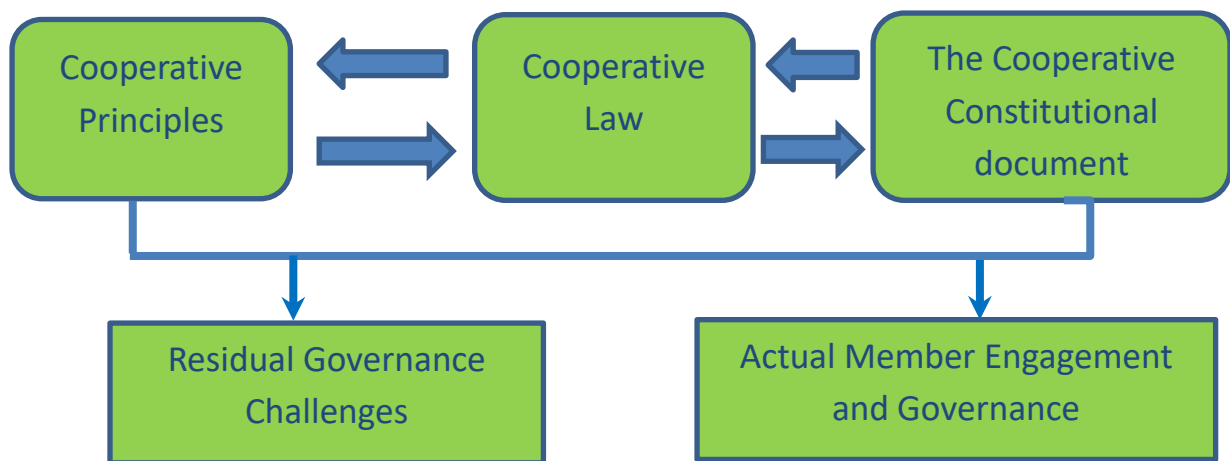


Figure 1. 1: Member *Voice and Influence* elements

When examining the components of member governance for a typical cooperative, it is proposed that there are a number of discrete elements, as presented in Figure 1.1. The argument is that member governance can be seen as having different elements which, when combined, support and protect members. Cooperative principles are seen as the foundational element for member governance followed by cooperative law and then the constitutional document. These elements aim to minimise the governance problems that members and their cooperatives might face in the course of their operation. The final element is that of member engagement, as we know from many scholars (Gray and Kraenzle, 1998; Fulton, 1999; Mazzarol, 2012) that high quality engagement can protect and enhance the cooperative organisation. The aim of this thesis is to understand how the different elements make up member governance rights, and the objective is to prove that each of these elements is necessary to maximise member governance.

Modern cooperatives trace their origin back to the Rochdale group of weavers from the mid-19th century when 28 weavers formed a cooperative business to counter negative behaviour by suppliers unrelated to the weavers' main line of business. In the process of the establishment of the entity, the weavers created a constitution and a set of governing principles (ICA, 2020). These principles have subsequently been modified and generally adopted by the International Cooperative Alliance and are used to form the base set of principles that are applied by cooperatives around the world. However, there are other sets of cooperative principles in evidence, see the United States Department of Agriculture (USDA)

set of three principles, for example. How effectively the principles have been implemented into Australian and New Zealand law is examined in Chapter-2.

When examining the implementation of the law, it is found that there are two legal forms of Australian cooperatives based on the Australian Cooperatives law (Coopdevelopment.org.au, 2019), namely trading and non-trading entities (Australian Uniform Co-operative Laws Agreement, 2012). The law governing cooperatives in Australia was very complex until recently when the Australian Uniform Co-operative Laws Agreement was introduced (AUCLA, 2012). The rationale behind the introduction of the agreement was to attempt to standardise the approach to cooperatives. This law included the goal of ensuring there were no competitive advantages or disadvantages given or taken away, from a cooperative when compared to an IOF. The new law has been implemented on a state-by-state basis in Australia with New South Wales being the first state adopting the law in 2013 and the other states following. However, some states have yet to enact their legislation based on the AUCLA. The Australian definition of a cooperative is *"an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise"* (University Co-operative Bookshop, 2019). Western Australia and Queensland have both recently accepted the AUCLA and in 2019 and 2020 respectively have enacted the uniform law.

New Zealand dairy cooperatives are governed by the *Co-operative Companies Act* (1996), in conjunction with the New Zealand's *Companies Act* (1993). The New Zealand definition of a cooperative is *"A user-owned and controlled business where benefits are derived and distributed equitably on the basis of use"* (Cooperative Business New Zealand, 2019). The Australian and New Zealand cooperative definitions both agree on ownership and control, stating that the enterprise is democratically controlled by the members. The linkages between the law and cooperative principles are examined in Chapter-2 for both Australia and New Zealand. Evidence of the separate cooperative principles as found in each of the countries law is examined and contrasted.

As contained within many of the cooperative laws, a mandated set of requirements is laid out for cooperatives to follow in their constitutional document. The constitutional document has other names in various regions (such as *Replaceable Rules* in Australia) however, for the purpose of this thesis we use the term Constitutional Document to mean the constitutional document that governs the cooperative as mentioned in the specific cooperative law of the applicable country. The constitutional document allows the tailoring or even over-writing of specific cooperative law provisions; this can assist the cooperative in its governance endeavours. How effective the implementation of the constitutional document is examined in Chapter-3.

Cooperatives have governance issues as a result of their unique business structure. Agency theory describes the potential conflict between the interests of the management versus the interest of the firm owner. Modern studies posit that agency theory should be taken into account whenever a conflict of interest is possible (Eisenhardt, 1989). Agency theory has been investigated in many corporate and investor-owned business models. Research has found that agency conflicts can be present and do occur in member-owned businesses or cooperatives (Dewes and Padula, 2012). Other research found that agency theory could be applied to cooperatives, but its manifestation was different in that the explicit goals for an IOF differ from that of a cooperative. Corporates aim to maximise profits, but cooperatives have this as only one of the aims (Cornforth, 2004).

Stakeholder theory is another lens through which to view cooperative governance. It concerns itself with the many stakeholders that any enterprise has, whether these stakeholders are internal or external to the organisation. The central idea of stakeholder theory is that business entities that manage their stakeholder relationships well will survive longer and have better overall performance than organisations that do not (Freeman, 2007). Furthermore, Foss (1999) found that the greater the size and complexity of a business entity, the more prevalent the agency and stakeholder governance issues can be. There are, of course, other challenges that cooperatives face. For instance, Agency theory gives rise to the *Control Problem* (Jensen and Meckling, 1976) where the cooperative operational management adopts a strategy that is not endorsed by the membership. *Free Rider Problems* exist in cooperatives (Cook, 1995; Royer, 1999) where, in the case of dairy cooperatives, farmers do not need to join a cooperative to benefit from the advantages that a large

cooperative has made in the operating environment. The *Horizon Problem* (Cook, 1995) refers to a time problem where members do not vote for improvements they do not believe they will see the commercial benefits from, within their membership lifespan. Members having different risk appetites can give rise to the *Portfolio Problem* (Royer, 1995 1999) as they cannot buy or sell the equity they have in their cooperative to match their risk appetites and have a greater say. The *Influence Cost Problem* arises when the cost of influencing members is high (Royer, 1999), especially where the cooperative membership is heterogeneous. There are other problems that exist, such as *Cherry Picking* where members take advantage of an average return base to lower their costs and provide an inferior product. *Quality of Product* problems exists where members take advantage of the higher return where a higher quality product was offered but did not bear the costs of the grading, collection and separation of the high-quality product. The problems discussed above are just a sub-set of governance problems; however, there are other problems that exist within cooperatives and their membership.

Once the principles, the law, and the constitutional document have been applied to the known governance problems encountered by cooperatives and their membership, there will always be “left-over” governance problems that would vary in individual impact and risk. These remaining traces of the governance problems are defined as the *Residual Problems* in this thesis. Chapter-4 examines the residual governance challenges that a cooperative and its membership might face after the principles, the law, and the constitutional document is applied to reduce the impact and risk of the above governance problems.

The core elements of cooperative governance comprise the cooperative principles, the cooperative law, the cooperative constitutional document, and together make up what is defined in this thesis as the Cooperative Policy Framework (CPF). After the application of the CPF there remains left-over or residual cooperative governance challenges. Chapter-5 of this thesis examines the perceptions of the members themselves to understand their view, requirements, and their suggestions as far as cooperative governance is concerned. Good engagement implies that members are "connected" and in this way, governance requirements might be eased in some ways. On the converse where engagement

"connection" is loose, the reliance on formal governance rules or provisions might be more necessary. Chapter-5 analyses data from interviews of members that belong to various cooperatives in order to understand their view and the relative success of their current mode of governance.

1.4 Contribution

This thesis contributes an original analysis of cooperative governance in Australasia. It applies a methodology rarely used in cooperative studies, comparative legal analysis, to identify reasons for underlying cooperative governance challenges. It contributes new empirical data of Australasian member perceptions on their participation in governance. This research is unique in that there is little research that has been carried out on the "ground-up" approach using the elements of cooperative governance, as explained above. The contribution each chapter makes is as follows:

Chapter-2: An evaluation of cooperative principles as applied in the cooperative law of Australasia

Chapter-3: An evaluation of the significance of the cooperative constitutional document, with a focus on Australasian dairy cooperatives.

Chapter-4: An evaluation of the effectiveness of the application of the Cooperative Policy Framework (CPF) in mitigating the major known governance challenges for Australasian dairy cooperatives.

Chapter-5: An in-depth study into Australasian cooperative member perceptions of engagement and governance, including empirical data of Australasian member perceptions.

Overall, the thesis contributes an innovative framework for assessing dairy cooperative governance, and policy improvement recommendations with Insights for members, cooperatives, and other stakeholders

The thesis examines the implementation of New Zealand and Australian policy effectiveness and highlight the gaps between the law and the international cooperative principles and how these have contributed to governance problems. It contrasts the two laws (that of New Zealand and Australia) as they each have perceived advantages and disadvantages.

Additionally, it contributes data and analysis as to the effectiveness of constitutions and how these relate to good farmer governance. Using the results from the first two chapters, this chapter analyses the part that the law and constitutions play in the known governance problems for cooperatives and then the residual challenges that cooperatives might still be forced to face. The in-depth interviews provide data which is used in the qualitative analysis phase to generate an understanding of the evolution of cooperative governance and options for its enhancement and reform from the members perspective. The findings provide information for interested stakeholders as to farmer perceptions of cooperative governance effectiveness and makes recommendations to improve, where necessary, the cooperative policy framework. Finally, the thesis uses the conclusions in all chapters to propose a model of cooperative governance that would improve member governance.

1.5 Foundational Literature Review

Cooperatives trace their origins back more than two thousand years to trade structures such as the Indian Sreni in 800BC (Khanna, 2005). According to the author, the Sreni was a collection of individuals formed into a guild that banded together for an economic purpose and shared profits according to some labour and input calculations. Later, in the early 18th century, a fire insurance cooperative company was formed in England. In 1750, a group of French cheesemakers formed a cooperative, which is the first documented producer cooperative (Williams, 2007). The author names the cheesemaker cooperative as a consumer cooperative (Williams, 2007, p10). However, under the definition of types of cooperatives, a consumer cooperative is owned by consumers, not producers whereas producer cooperatives are primary producer cooperatives such as the cheesemakers and other dairy cooperatives (Hansmann, 1999). The modern-day cooperatives trace their origins back to the Rochdale weavers' cooperative, which codified a set of principles. These base principles are still used globally in cooperatives today (Rochdale Pioneers Museum, 2017). The base set of principles was formed in the creation of the modern cooperative model which was formed in response to predatory behaviour by merchants who supplied the weavers and their workers with consumer goods such as flour, sugar, and other commodities. Since the formation of the Rochdale cooperative, cooperatives have increased in number and revenue to become an essential part of the global economy. However, when cooperatives concentrate on the

Member Value Proposition (MVP) by adding value for their members, success stories of cooperatives thriving under challenging market conditions are evident such as Livestock Improvement Corporation (Mazzarol, T., Reboud, S., Limnios, E. M., & Clark, D., 2014). Examples of these cooperatives will provide valuable insight into what governance mechanisms work and which ones end up limiting member involvement.

In 2014, cooperatives were estimated to have around 1 billion members, and cooperatives employed more than 250 million staff. The world's top 300 cooperatives by themselves have an estimated global turnover of 2.2 trillion USD, as revealed by the 2014 World Co-operative Monitor (ICA, 2014) which is slightly less than the Gross Domestic Product (GDP) of Brazil, the 7th largest economy (World Bank, 2014). This data signals that cooperatives are a significant sector and should not be discounted as insignificant in the global economy.

According to the International Cooperative Alliance (ICA), "*A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*" (ICA, 2015). Most cooperatives have, as part of the association, a reference to the seven internationally agreed principles of cooperatives. These include:

Voluntary and open membership without discrimination of any kind, which includes no discrimination regardless of race, creed, gender, sexual orientation. Most of the developed world has adopted some form of anti-discriminatory legislation which supports this principle. However, legislation is often attempted to curtail the rights of cooperatives, citing unfair advantage, but these have been largely unsuccessful (Birchall, 2005).

Democratic member control according to an agreed voting system and process, which ensures that no member has more voice or say than any other member. According to Williams (2007), this principle is often modified in the case of a cooperative of cooperatives, where several smaller cooperatives are networked, as the member of the smaller cooperative could end up with more vote and control than the member of a larger cooperative within the network.

Member economic participation of the members for both contribution and compensation. However, some cooperatives allow the issue of instruments to gain additional capital such as

promissory notes, which still do not give the holder of the note any vote, control or voting rights within the cooperative ("Fonterra Shareholders' Fund", 2020).

Autonomy and independence ensuring any dealing with external organisations and governments do not detract from the member rights. However, this principle is difficult to apply as many countries corporation law can affect this to some degree and thereby place burdens on the cooperative in some way to comply with the law (Government of New Zealand, 2017; Government of Australia, 2017). Many cooperative laws have taken the view that a cooperative provides commercial services to its members without gain for itself.

Provision of *education and training* for all stakeholders of a cooperative, including the members, managers, and employees. This principle has had varied success as the challenge of setting up the education framework would require resources that could be better employed in other areas of need, such as manufacturing.

Cooperation among cooperatives, as the cooperative members are often members of more than one cooperative, the need to link these into a type of network has benefits for all cooperatives within the network. The advantages of the linking of these cooperatives within a community are self-evident as is the linking across the state and country borders to open new markets, for example.

Concern for the community to ensure that environmentally sound practices are used that are linked to sustained development. The connection of this principle to the community is self-evident and places the cooperative closer to the social aspects of a community-run corporation.

1.5.1 Types of cooperatives

While the principles are important to lay the groundwork of a cooperative, there are many different types of cooperatives in existence in the world. The ICA and Zeuli and Cropp (2007) have listed the types of cooperatives; the main ones are discussed below:

Producer Cooperatives, which include agricultural production cooperatives, usually produce food. The members are a business entity, each in their own right, that has formed a cooperative to distribute, market or manufacture the members produce. For example, Fonterra in New Zealand is a *Producer Cooperative* with services from milk collection,

manufacturing of ingredients, and the marketing of manufactured products. Similarly, in Australia, Norco is also considered a producer cooperative which collects milk, manufactures products and markets end products on behalf of its members.

Marketing Cooperatives, as their name suggests, market the product on behalf of the members. There are cases where two or more cooperatives form an alliance – a cooperative of cooperatives - to market the combined product, thereby ensuring they do not force pricing down by competing against each other. As mentioned above, producer cooperatives sometimes fulfil the marketing function as well so are vertically integrated to meet the end-product point.

Worker Cooperatives are owned by their workers who are the cooperative members. If capital is required for a start-up, then the workers all contribute capital as member-shareholders. These cooperatives are popular with low-income earners, and more recently become more popular with attorneys, engineers, and other professionals. The cooperatives themselves are small and thus require no governance board of directors, and it is, therefore, possible for all members to meet to create policy, governance and make decisions. Some research has posited that employees of a traditional company that participates in an employee share scheme, whereby they are offered shares of the firm with conditions, are a category of worker cooperative (Pencavel, 2012).

Consumer cooperatives are characterised by consumers buying goods or services from the cooperative but retain ownership of these cooperatives. These cooperatives were formed to purchase commodities on behalf of the members who are primarily retail customers as well. The Rochdale Pioneers' cooperative is an example of a retail consumer cooperative to supply commodities to their members. According to the European community of consumer cooperatives (Eurocoop, 2015), consumer cooperatives *"...are enterprises owned by consumers, managed democratically, aiming at fulfilling the needs and aspirations of the members"*. This statement is in line with the cooperative definitions above. The primary activity describes the difference. Consumer cooperatives hire managers and usually have boards of directors, according to Eurocoop (2015), which manage the entity on behalf of their members. Consumer member-owners may serve on committees and be elected as directors

of the board. However, the usual practice is that they are consumers of the goods or services and hire in required skills to operate the entity.

Credit unions and cooperative banks have been described as consumer-owned financial services cooperatives as they consume the services provided by the credit union or bank. Members of the credit union or bank can elect directors who then hire professional managers to run the day-to-day operations. After the global financial crisis in 2008/2009, research has been abundant into the advantages or disadvantages of cooperatives in the financial services sector, but many agree that in a broad range of circumstances the cooperative model offers distinct advantages when compared to that of the traditional investor-owned banking model (Birchall and Ketilson, 2009; United Nations, 2009). A paper presented to the United Nations in 2009 stated unequivocally "*Cooperative banks in the form of credit unions, building societies and cooperative banks, by focusing primarily on the needs of their members, have displayed prudence and avoided the excessive risk-taking that plagued many large global financial institutions*" which supports the findings made by various other scholars.

1.5.2 Cooperative Market and Structure

Cooperatives can be local in that they operate in a local community serving members who are geographically close to the cooperative headquarters. These local cooperatives start off serving the local community and would be expected to serve a small geographical region. When the local cooperatives expand, they can span the state, district or county boundaries. The growth usually comes about by mergers and acquisitions of other cooperatives. Interregional and national cooperatives are cooperatives that provide for more than the region serving significant portions of a country. In the absence of any limiting legislation and regulation, cooperatives can cooperate with the result that mergers then take place to extend the market boundaries of the central regional or national cooperative. International or global cooperatives operate in more than one country and serve many national regions. Different structures can support the cooperative when becoming global, which can take many forms. Broadly, evidence of the breadth of the market that a cooperative exists in can indicate the lifecycle stage (Cook, 2018). The lifecycle is explained below. However, a cooperative usually starts as local, moving to regional by mergers and acquisitions and finally becoming global with further mergers and acquisitions in order to extend its influence in the marketplace.

There are several ownership structures, each having advantages and disadvantages. Zeuli and Cropp (2007) consider a range of different structures, which are described below.

Centralised cooperatives are owned directly by the members and are typically local cooperatives. Large cooperatives usually do not follow this structure (Zeuli and Cropp, 2007). The members elect the board of directors, and the board employs professional managers, so in this way, the cooperative is similar to a corporate entity or an IOF. These cooperatives are usually split into different regions, usually with each of the regions electing a delegate. If there are a large number of delegates, these usually form part of a supervisory council from which the member directors are appointed. Independent directors with backgrounds that are relevant to the nature of the cooperative's business are also present in large cooperatives but usually, do not outnumber the regionally elected member directors as the cooperative constitution generally has specific rules around the independent and member-elected director mix.

Federated Cooperatives is a term used for a cooperative of networked cooperatives. Each local cooperative would elect members to serve on their boards similar to that of a centralised cooperative with these members electing directors to sit on the federated cooperative board (Zeuli and Cropp, 2007). Once again, independent directors are typically elected from the management team of the local cooperatives, or once again, external independent directors are elected to serve on the board.

Hybrid cooperatives are cooperatives that have a combination of centralised and federated structures. The board composition of these is similar to that of the federated board structure once again being dominated by member-elected directors with a few independent director's present (Zeuli and Cropp, 2007).

Other structures exist, especially some large global cooperatives. These cooperatives could have a subsidiary structure, which is a corporation wholly owned by the cooperative. Joint Ventures (JVs) are also present in some large and multinational cooperatives. These structures involve a cooperative and another party, which could be a publicly listed entity, a private corporation or another cooperative. A new cooperative model has emerged called the *New Generation Cooperative* (NGC). The NGC operates mainly on the same principles of a traditional cooperative, but the membership is closed or limited. The shares are based on the

volume of the product received from the member and shares are issued on that basis. This ensures a specific quantity of produce is available for the cooperative. If the member does not meet his quota according to the shares purchased there may be action taken in the form of a fine, or withheld proceeds. The model is different as it takes the amount of capital required and divides this by the number of units of product that will be processed through the cooperative. The capital from the member's initial investment is employed to purchase, for example, manufacturing capabilities. Since the members contribute a substantial amount of capital at the start-up, the expectation is that they will receive a high proportion of the profits of the cooperative retaining little of the earnings for future capital projects. Traditional cooperatives often retain high percentages of the profits to ensure future capital projects and expansion can continue (Zeuli and Cropp, 2007; Grashuis, 2018).

Another member class created in the United States is the investor-class. Zeuli and Cropp (2007) mention that these members share in the profits but not in the voting of the directors or operational decisions. Hence, they are similar to those of shares with no voting rights, such as preference shares, in listed corporations.

Hansmann (1999) stated that cooperatives are no different to IOFs as investors can be seen as a type of cooperative member that use their equity in the same way as cooperative farmers contribute product to the centralised cooperative. However, the reason for the formation of the cooperative in the first place may have more to do with the structure it adopts than Hansmann takes into his account.

Zeuli and Cropp (2007) name a few reasons why cooperatives form which are not substantially different for a firm to form. The rationale for formation can include market failure where there is a monopoly; excess supply or an opportunity for a new market which is not present; economic crisis such as in times of a depression or recession; new technology, for instance, a technology disruptor; farm organisation and cooperative advocates adapting to new requirements; favourable public policy where government legislates to the advantage of cooperatives or disadvantage of IOFs. There are specific reasons for the choice of an agricultural cooperative business model over the investor-owned structure, which has been examined, and a few papers have been published (Bonus, 1986; Valentinov, 2017). Of particular interest is the agricultural cooperative, which exists to take the product from the

farmer in the form of perishable goods, so the timing to market or manufacture is critical. This is not to say that an IOF could not perform the same function in the market, but the raising of the capital for the building of a manufacturing facility is more likely to be successful based on an equity view. For instance, a number of farmers using their equity in land and livestock as collateral for a loan would be more likely to succeed when compared to an IOF trying to raise capital from financial institutions where the equity is not held by the enterprise. The advantage to the farmer is that he has greater influence over the price mechanism in this case, whereas an IOF would attempt to drive the input costs to the minimum.

Australia and New Zealand have their own definition of cooperatives. There are two types of cooperatives in Australia either a distributing or non-distributing cooperative where the former can distribute surplus income to the members and the latter being considered a not-for-profit organisation as the surpluses are kept within the organisation (BCCM, 2020). New Zealand does not have an equivalent non-distributing cooperative as Australia (Cooperative Business New Zealand, 2020). In this study, the focus is on producer cooperatives and in particular, dairy cooperatives.

1.5.3 Cooperative Governance versus Corporate Governance

Cooperatives face similar governance challenges to that of IOFs. However, due to the social nature of cooperation, there are a few additional concerns of cooperatives that could shape the governance structure. Before a comparison is made with the governance issues between an IOF and cooperative it is appropriate to consider the cooperative specific problems and why these are distinctive to cooperatives generally and then look at the theory of the firm and how this is applied, or can be applied, to a different business model, the cooperative. The specific issues that cooperatives face are now discussed.

Free rider issues are described as problems that arise when property rights are unassigned or non-tradable (Cook, 1995; Royer, 1999). Cooperatives rarely have assigned property rights resulting in the free-rider problem of, for example, a non-cooperative dairy farmer is assigned the same prices (rights) that a large cooperative has negotiated without joining the cooperative. Internal free-rider issues exist in the case where new cooperative members have the same rights and advantages of those long-term members. Iliopoulos and Cook (1999)

state that because of the continuing dilution of the rate of return of the members, there is no incentive for long-term members to invest in the cooperative.

The horizon dilemma refers to the disincentive to invest in long-term projects by members. Horizon challenges occur when the returns of the project have a shorter life than the members' cooperative association (Cook, 1995). Cooperatives formed with similar member demographics can result in a time-horizon problem for the cooperative. Without new members continually joining the cooperative, the pressure for the long-standing members is to get the directors to reduce retained earnings and pay this out to the members for their benefit rather than invest in long-term projects. New Generation Cooperatives (NGCs) use tradable stock to mitigate the horizon problems, but the success has been limited by the fact that the tradable stock is commonly restricted to active members of the NGC only.

The portfolio difficulty lies in the lack of transferability of the residual member equity, meaning members of a cooperative cannot buy and sell shares in a cooperative to match their risk preference. Some members would prefer a higher risk profile and more returns, while others prefer a more conservative risk avoidance approach. Royer (1995, 1999) states that cooperative members are more impacted by this problem due to the closed nature of cooperative investment which is closed to members only and does not allow external investors to buy shares. The gap between the risk profiles of the two views causes the portfolio limitation, therefore restricting the growth of the cooperative.

The control problem exists in all organisations where ownership and control are separated. The cooperative owners usually have control over who sits on the boards but cannot always effectively address the directors' interests. This control issue can result in the agency problem that is similar to that experienced by publicly listed companies. Essentially this is the divergence of interests between the directors and member-owners and could also be found in a divergence of interests between the directors and the professional cooperative management. Cook (1995), citing Hansmann (1999), believes that smaller cooperatives suffer less from this issue than similar-sized IOFs due to the nature of the members' income, which

was mainly from the cooperative. However, it can be argued that the aspect of size advantage could limit the agency problem when examining a small corporate entity as well.

Influence cost problems exist in cooperatives more than IOFs due to the diverse nature of the membership and ownership. Royer (1999) defined the cost as being associated with influencing other members. The size of the cost is contingent on the central cooperative management; the process of decision-making; and the degree that members are similar in their thinking. Royer (1999) states that cooperatives suffer more than IOFs do with divergent interests, as the shareholders of a firm are more homogenous in that they want the firm to provide dividends and share price growth whereas the members of a cooperative might have varied interests. For instance, a cooperative dairy member might instead want a combination of a higher payment for his produce as well as supporting services such as cheaper input costs from fertiliser suppliers rather than dividends.

There are, besides the above problems with cooperative governance, issues of anonymity with the directors serving the cooperative. These directors are often members of the local community sharing social interactions with the farmers they serve. This often places the directors under challenging positions, which are quite different from that experienced by directors of publicly listed companies. The shareholders of publicly listed companies are unlikely to regularly socially interact with their directors and even less likely to have a detailed interest in the operations of the entity. Issues of quality of product can cause tensions within the member community. For instance, if a high-quality product were created the labour associated with the separate process for picking, grading and storing would be borne by all the members, yet the proceeds of the high-quality produce could accrue only to a few members. Table 1.1 outlines the common governance issues that cooperatives face.

Common Cooperative Governance problem	How these manifests itself within a traditional cooperative	Does this apply to a traditional IOF Firm, and why/ why not?
Free rider	New members afforded the same rights as long-standing members – same vote; same benefits; no appreciation of share value	No, shareholders invest only and are allocated voting rights according to shareholding. Shares appreciate/ depreciate over time
Horizon	Disincentive to invest in long-term projects. Members usually have a similar timeframe (and lifespan) as members. Members want maximum pay-out rather than investing in projects that may not personally benefit them	No, shareholders understand investment with long-term investors accruing the advantage over time. Usually, when new projects are started within a publicly listed firm, shares appreciate if the market believes the project will yield returns.
Portfolio	Members have differing risk appetites and, therefore, block riskier initiatives at the expense of higher returns. The member cannot buy more shares and thereby influence – one member one vote issue, votes not based on the quantity of shares but the member vote.	No, investor shareholders can use a portfolio approach to minimise risk within their investments. They buy shares from different industry sectors, ensuring that if shares fall in value in one sector, this is mitigated by a strategic investment in a different industry sector.
Control	This is the agency problem between the directors and the member-owners. A divergence of interests between the two parties can also exist between the directors and management of the cooperative as well.	Yes, this issue has been widely researched, Jensen and Meckling (1976), Eisenhardt, (1989) and others.
Influence Cost	Costs associated with activities that members engage in, in an attempt to influence the decisions that affect the distribution of funds. Cooperatives may experience greater costs influencing due to the diverse nature of the membership. (Royer, 1999; Cook 1995; Milgram and Roberts; 1990)	Yes, perhaps not as much as cooperatives as investors understand the direction that a firm is taking strategically, and the decisions are sometimes made at the board level delegated by the shareholders.
Other Cooperative Governance Problems	There are a number of cooperative problems that are unique to the cooperative business structure, which include Cherry-Picking, Product Quality, Directory anonymity as examples, please refer to the above discussion.	Not usually, however, there are cases where some franchise-type organisational forms can encounter similar problems.

Table 1. 1: Cooperative Governance Weaknesses

Cherry-picking is often found within member-owned businesses where certain members can take advantage of the average return base to lower costs and thereby burden the cooperative with additional costs that should be borne by the member.

There is considerable research on a firm's lifecycle (Miller and Friesen, 1983; Adizes, 1989) which has examined different measures ranging from strategic intent to structural characteristics. However, all the lifecycle stages have similarities between those that have

three main stages and those that have ten stages. When examining the 3-stage model and comparing this to the 10-stage model, it can be argued that the models with more stages have expanded the three key stages to explain more fully the lifecycle. The schematic below shows the generally accepted 5-stage view of Miller and Friesen (1984) for a firm.

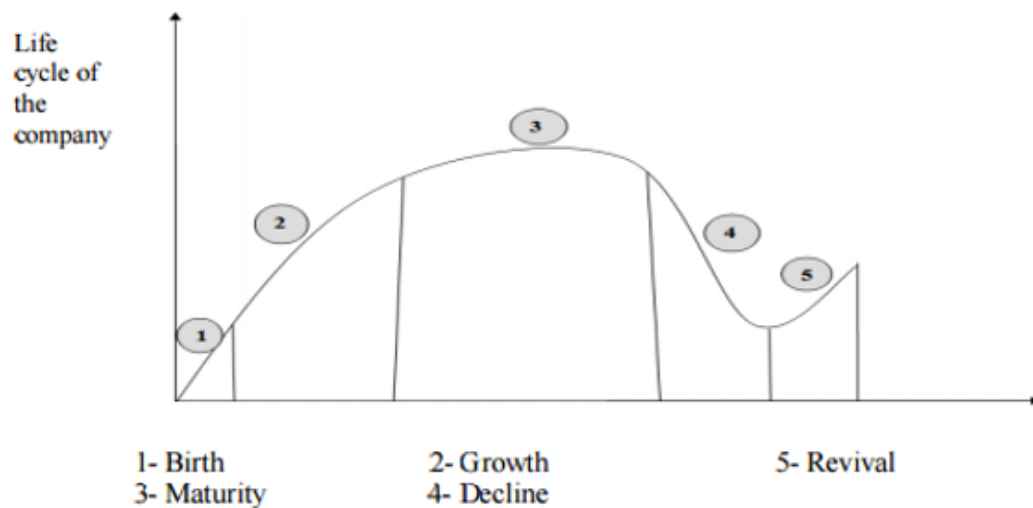


Figure 1. 2: Miller and Friesen Model of the Phases of a Company (1984)

According to Cook (2018), cooperatives follow a 5-stage life cycle, which was later expanded, by Cook and Buress (2009). The lifecycle starts with forming and ends in decline or a reinvention of the entity. When examining the five stages of a cooperative lifecycle of Cook (2018), a need to contrast the cooperative life cycle against other business models particularly that of the IOF (IOF), as presented above, is required. According to Cook (2018), the cooperative lifecycle can be represented by the 5-stage schematic as represented below.

Figure 1. Basic Life Cycle Framework

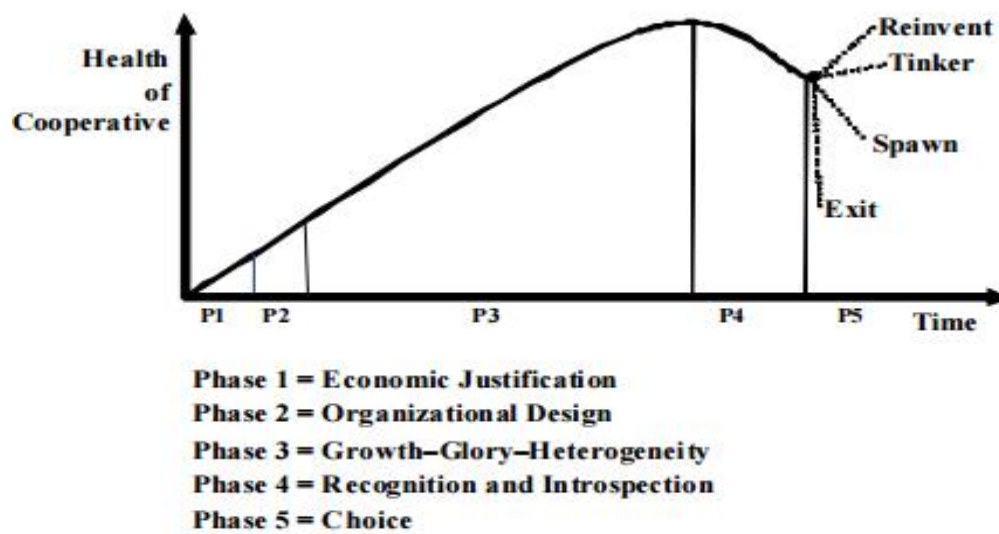


Figure 1. 3: Basic Life Cycle Framework Cook (2018)

It can be established when comparing the two schematics, that there is a similarity between the lifecycle of the cooperative and that of the IOF as both go through the initial stage of formation, continuing to growth, plateauing or a maturity level, and then declining or reinvention. The organisational management structure of a cooperative is similar to that of a firm, both having a senior management team with a CEO reporting to the board of directors. The management team employs staff with other required skills within the cooperative, and these are commonly organised by business function. The workers enter into employment contracts with the entity much the same as a firm and are assessed on performance criteria that are created to align the interests of the cooperative employees with that of the owners. This is not unexpected; however, in the literature, there has been debate as to whether a cooperative is different from a firm. Hansmann (1999) has said there is no difference. However, Birchall (2012) has stated that there are fundamental differences. As can be deduced from the above lifecycle approach, there is little that distinguishes the cooperative from the firm examining the organisational management perspective. Therefore, it is likely if there are any differences, these differences exist above the operational management layer at the ownership layer of the members of a cooperative. The case of the financial sector member-owned firms is a good example. Produce based cooperatives have found it problematic to change business models due mainly to the issues of property rights and horizon problems mentioned above.

When cooperatives own limited liability entities, there is an argument that the use of the funds, or the leverage of the assets by way of secured loans, is in contrast to the principles and ideals of a cooperative entity (Lund, 2013). Many arguments have been put forward by members that the retained funds used, or the debt entered into should be a decision made at the farmer level not only at the operational management level (Challita, Sentis, and Aurier, 2014).

If there is little difference between the cooperative and IOF within the operational management structure, then it is likely many of the corporate governance issues that exist within a firm are similar when looking at a cooperative. The differences, as stated above, may exist at the layer of ownership, which will be expanded below.

Considering the governance innovations that have taken place in the European Union which has been very well summarised in the paper by Bijman et al. (2014), the dairy cooperatives in both New Zealand and Australia have followed similar paths to the different types of innovation. The inclusion of a supervisory board looking at the pre-and post-decisions of the board of directors has been implemented in Fonterra (New Zealand) by means of the shareholder council; however, this has been met with limited success, and none of the other cooperatives has this type of governance structure. The other innovation of proportional voting of members depending on the amount of raw material they provide is present in New Zealand cooperatives (Tatua, Fonterra, and Westland before it was sold) but was not found in any of the Australian dairy cooperatives although one of the Australian cooperatives has incorporated under the Corporations Legislation (see Chapter-2) which implies that this option is open to them as they are no longer considered a cooperative as the cooperative law does limit them in this regard. The Board of Directors in Australasia have options to appoint professional directors which are non-members, so in this way, they do follow innovation three of the Bijman et al. (2014) paper. The fourth innovation is the composition of the supervisory board; however, this composition innovation is not found in the Australasian dairy cooperatives in this study. Finally, the innovation that separates the cooperative association and the cooperative firm as described in innovation five Bijman et al. (2014) is similarly not found in the cooperatives that are examined in this thesis.

Examining the theory of the firm, we find that the cooperative has many issues that a firm has. Agency theory (Jensen and Meckling, 1976) is an issue where the interests are not aligned between the owners and their agents. The principal-agent issue is likely to exist with cooperatives for similar reasons that it exists within a firm, already discussed above. The nexus of contracts view of Alchian and Demsetz (1972) is essentially a principal-agent issue where management contracts do not differ from the contract between an internal and external party. Coase (1937) and Simon (1951) believed that the management had the authority, and, therefore, the contracts with employees were broader and, therefore, more easily applied. Moral Hazard is another issue that finds its roots within the asymmetrical information issue where owners and the managers have different information, and, therefore, the managers use this information gap opportunistically. This would be no different for a cooperative as the contracts within a cooperative do not differ from that of a traditional firm, and neither is the information asymmetry likely to be any different. Incentives within a cooperative are unlikely to be distinct from that of the traditional firm except for certain firms allowing share allocations to incentivise senior staff who are able to influence the firms' direction on the owner's behalf. Shares in a traditional cooperative are a closed pool and not able to be allocated. However, some cooperatives have allowed an investor-class member category, so this could be used to incentivise managers to align their interests with the owners. On the Incomplete Contracts view of the theory of the firm Coase (1937), states that a firm would arise when the costs of transacting outside the firm would be more than the cost of transacting internally. Williamson's work (1971, 1973, 1975, 1979, 1985, and 1996) was based on bounded rationality and opportunism, both of which can result in incomplete contracts. The safeguards that Williamson mentioned in his work are referred to as governance mechanisms. As the management structure below the ownership layer is organised in the same way as a traditional firm, cooperatives would be no different, suffering the opportunistic behaviour of employees. Other aspects of the theory of the firm from the Incomplete Contracts view would be similar to that of the traditional firm leading to the general supposition that a cooperative and a traditional IOF suffer from similar issues that corporate (or cooperative) governance needs to minimise where possible.

1.6 Thesis Research Question and Hypothesis

This research uses multiple lenses to answer the substantive research question. It will examine the roles of law, cooperative constitutions, implementation challenges, farmer engagement, and alternative approaches to cooperative design and function. As this thesis will cover overlapping sections of work, each comes with its research questions and hypotheses. However, the overarching research question and hypothesis are as below:

1.6.1 Overarching Research Questions:

What are the governance challenges and opportunities facing Australasian dairy cooperatives, and what governance elements contribute to an effective cooperative governance framework?

1.6.2 Overarching Hypothesis:

The International Cooperative Alliance seven cooperative principles have not been effectively implemented in Australasia, resulting in member governance challenges within dairy cooperatives. Farmer-members are not always aware of decisions that cooperative businesses legitimately make in the course of business operation which could directly or indirectly affect farmer income and viability.

1.6.3 Specific Chapter research questions

The specific research questions addressed in the thesis are listed below. Chapter-1 (Introduction) and Chapter-6 (Conclusions, implications, and Research Agenda) do not have research questions.

1.6.3.1 Chapter-2 Research Questions.

1. Globally, how have the different sets of cooperative principles been implemented?
2. How effective is the implementation of cooperative principles in Australasian law?

1.6.3.2 Chapter-3 Research Questions.

1. What is the role of the cooperative constitutional document?
2. What support can be found for the constitutional document in cooperative laws around the world?

3. What are the relative strengths and weaknesses of dairy cooperative constitutional documents when contrasting their implementation in Australia and New Zealand?

1.6.3.3 Chapter-4 Research Questions.

1. To what extent does the application of cooperative principles, the law, and the constitutional document mitigate the known governance problems in Australasian dairy cooperatives?
2. To what degree are residual governance problems apparent in Australasia?

1.6.3.4 Chapter-5 Research Questions.

1. What are the views and perceptions of Australasian dairy cooperative members when considering participation and governance in their cooperative?
2. What is optimum Australasian cooperative member *voice and influence*?

1.7 Research Methodologies and Analysis

The complete dissertation consists of six distinct chapters. Therefore, a range of different methodologies and analysis techniques are proposed for each of the chapters.

Chapter-1 Introduction. This chapter takes a broad view that provides an overview of the elements of member governance, which is more thoroughly discussed and analysed in the subsequent chapters of the thesis.

Chapter-2 provides an analysis of the different sets of cooperative principles and how these have been implemented in various regions. Furthermore, it then examines the implementation of principles in the Australasian policy environment, specifically for Australia and New Zealand. The primary data sources will be the various sets of principles in use around the world, any literature or theoretical sets of principles that have been studied will form the secondary data source.

The laws of Australasia governing cooperatives enterprises in New Zealand and Australia are then examined. The primary data source will be the legislation as it currently stands in New Zealand and Australia that govern the operation of cooperatives. It is anticipated that ancillary

type legislation, including regulation and market rules, will likewise influence the governance mechanisms that cooperative dairy farmer-members can apply, so will be examined as well. Secondary data sources such as other cooperative laws found in Europe, China and America will be compared against the cooperative laws in New Zealand and Australia. The comparison will allow a conceptual understanding of the maturity of the current legislation when talking a theoretical view applying the seven cooperative principles. The primary methodology will be content analysis for the intent and thematic content analysis to gain an understanding of the level of governance the cooperative laws allow. Keywords will be tabulated using computer software tools, enabling a comparison to be drawn for each of the laws when analysing other legislation from different parts of the global dairy sector. The expected output will be a view of the maturity of the New Zealand and Australian cooperative legislation when using the seven global cooperative principles as a base.

Chapter-3 provides an analysis of the constitutions, or replaceable rules as they are referred to in Australia, for each of the eight dairy cooperatives. These are expected to differ when comparing New Zealand to Australia as a result of the legislation which enacts which provisions may be altered to form part of the cooperative constitution. The primary data source is the constitutions of the cooperatives, which are all publicly available in New Zealand from the government regulation sites. Australian constitutions, or replaceable rules as they are referred to in Australian legislation, can be bought off the local state governments by any member of the public for a nominal fee. However, individual Australian cooperatives, in the interests of their farmer-members, have their constitutions publicly available at no charge. Employing the seven global cooperative principles as a base, a Content Analysis will be undertaken for intent. Thematic content analysis using computer software will tabulate the governance-related keywords for further analysis and understanding. The expected output will be a view on how different constitutions have been used to close perceived deficiencies in New Zealand and Australian legislation.

Chapter-4 provides an analysis of the governance challenges of cooperatives, specifically looking at those difficulties which are found in New Zealand and Australia by analysing the

cooperative governance issues which all cooperatives face. It will then furthermore, study the governance issues that arise from the first chapter in this thesis (cooperative law and their constitutions). Primary data will use the resulting findings from the previous chapter in which looked at the principles, the governing cooperative legislation in New Zealand and Australia, and the constitutions of the dairy cooperatives. Other legislation and regulation which affect the governance of dairy cooperatives in New Zealand and Australia, such as the Dairy Industry Restructuring Act (DIRA) 2001 and subsequent amendments in New Zealand and the accounting rules for cooperatives in Australia, will be used as sources of primary data. Research from global cooperative governance issues that have been studied over time by leading academic experts will provide the sources of secondary data. The specific governance issues that arise from specific unique legislation and the resultant provisions in the constitutions of the dairy cooperatives will provide a view of unique governance issues that New Zealand and Australian dairy cooperative farmer-members face. This chapter will then provide a theoretical framework to employ for the following chapter. Content analysis and thematic content analysis will be employed in the analysis for this chapter. The expected output will be a unique view of the New Zealand and Australian governance issues for cooperative dairy members.

Chapter-5 analyses and reports on the sample of interviews from dairy cooperatives in Australasia. The qualitative data from these interviews come from the same set of dairy cooperatives that were examined in Chapter-3, *The Cooperative Constitutional Document*. The sample size was determined to ensure that the *Principle of Saturation* was achieved without compromising the number of different views of the participants (Mason, 2010; Creswell, 2014; Guest, 2006). The chapter includes an analysis of the practice of governance as opposed to the theoretical governance mechanisms, of the seven New Zealand and Australian cooperatives. It examines each cooperative separately using publicly available artefacts such as annual reports, press releases, and general market announcements. Using these artefacts, a list of the decisions that could have affected the financial viability of the cooperative are tabulated. Using the list of decisions, a sample of dairy farmers, and where possible, elected board members are qualitatively interviewed in a face-to-face setting. The questions employed in the interviews to generate qualitative answers assist in determining

the extent of the farmer members' involvement or influence in major decisions. The analysis identifies the underlying reasons for the dairy cooperative farmer-member involvement or influence.

Chapter-6 is a concluding chapter and includes conclusions, implications, and a suggested further research agenda.

In summary, Table 1.2 below describes the methodologies used in each of the chapters.

Chapter	Title	Research Methodology and comments
1	Introduction	Introduction Chapter
2	Principle-based Cooperative Law: Contrasting the Australasian Cooperative Legislative Environment	Qualitative Content Analysis (Krippendorff, 2013) and Document Analysis (Bowen, 2009) Comparative Legal Analysis (Van Hoecke, 2015), Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013)
3	The Cooperative Constitution as the Foundational Member Governance Mechanism	Comparative Legal Analysis (Van Hoecke, 2015), Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013)
4	Cooperative Governance Challenges: Understanding their Origins and Possible Causes	Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013)
5	Member governance rights in a New Zealand and Australian Cooperative	Qualitative Research Method: 31 Interviews (in-depth) using a sample, including directors or ex-directors where possible. 24 Semi-structured interview questions (quantity: 24 questions); and Tools: NVIVO Qualitative Data Analysis software (In-depth, 1:1 face to face; recorded and anonymised)
6	Conclusions, Implications and Further- research	Concluding Chapter

Table 1. 2: Chapters and their Corresponding Research Methodology

1.8 Thesis outline

The thesis follows accepted guidelines for the University of Waikato as to structure and word count. Table 1.3 outlines the full thesis structure.

Chapter	Title	Short Description
Chapter-1	Introduction	Introduction in order to allow for context setting.
Chapter-2	Principle-Based Cooperative Law	<p>The second chapter examines the Australasian cooperative laws</p> <p>The cooperative laws of New Zealand are examined looking in particular at the Companies Act, The Cooperative Companies Act, and DIRA.</p> <p>Australian Laws are examined, including the Corporations Legislation, Australian Uniform Cooperative Laws Agreement (AUCLA). The laws of each country will be mapped against the internationally accepted seven cooperative principles through the member governance lens.</p>
Chapter-3	The Cooperative Constitution Document	<p>The third chapter looks at the constitution (or replaceable rules in Australia) and how this enforces the rights of the farmers when looking at the seven international cooperative principles.</p> <p>An analysis of seven dairy cooperatives in Australasia will be undertaken. The cooperatives are:</p> <ol style="list-style-type: none"> 1. Fonterra (New Zealand) 2. Tatua (New Zealand) 3. Westland (New Zealand) 4. Dairy Goat (New Zealand) 5. NORCO (Australia) 6. Australian Dairy Farmers Corporation Limited (Australia) 7. Dairy Farmers Milk Cooperative Limited (Australia)
Chapter-4	Cooperative Governance Challenges	The fourth chapter examines the governance issues that Cooperatives face and includes unique cooperative governance issues that New Zealand and Australia have as a result of policy such as DIRA in New Zealand and the 2019 Dairy regulations in Australia.
Chapter-5	Perceptions of Member Engagement and Governance	<p>The fifth chapter is a qualitative analysis of interviews of a sub-set of farmers of the seven cooperatives. Decisions that are publicly available were used to investigate member rights as far as these decisions are concerned.</p> <p>This chapter will build on the previous chapters looking at the law and constitutions to report on the effectiveness of the governance in each of the cooperatives as well as the compliance of the provisions that do exist.</p>
Chapter-6 Conclusion	Conclusion	This chapter concludes the thesis, including implications and a research agenda.

Table 1. 3: Thesis Structure

1.9 Summary

The introductory chapter provides an overview of the thesis and identifies the foundational elements of cooperative governance.

The chapter included the background to the research, the problem statement, the research questions broken up for each chapter, and a basic structure. Furthermore, the proposed research methodology for each chapter was provided as a summarised table.

The following chapters explain and analyse each of the factors that contribute to that “layer” of governance. Together, the layers form the content element (Chapter-2,3,4) and the actuality of member governance (Chapter-5) as it has been implemented and executed operationally within the cooperatives in this study. The content portion of the thesis examines the effectiveness of each element contrasting that element with other regions and performing a comparative analysis to identify the limitations of Australasian models and what improvements, if any, can be made. The real perceptions of the members as to their cooperative governance form the complementing final chapters of the thesis, providing a view on how governance has been implemented apart from the theoretical elements of the law and the constitutional document.

2. Chapter-2: Principle-based Cooperative law

The Legal Application of Cooperative Principles

2.1 Chapter-2 Introduction

As with other business forms, there are many reasons why cooperatives are formed; these include: as a result of market failure (Mikami, 2002; Hansmann, 1996), imperfect competition (Sexton, 1990), information asymmetry (Hansmann, 1996), and social-democratic need (Dobrohoczki, 2006). According to Valentinov (2007), agricultural cooperatives form because it is a question of the scale of the farm and the limitation that single farms can never grow sufficiently to counter market power held by others. For example, in the case of dairy farmers, if many producers attempt to sell their homogenous products to a few large buyers, the imbalance is evident in the singular-farmer sense, however, when the dairy farmers band together, the market imbalance can be moderated through collective negotiation by the farmers. Cooperatives have become significant alternative business structures with the top-300 cooperatives contributing more than USD\$2 trillion in annual revenue to the global economy in 2017 ("World Cooperative Monitor 2019 | ICA Monitor", 2019). Furthermore, memberships in cooperatives globally reached over 1 billion in 2014. Excluding the employment figures from China's 982,000 agricultural cooperatives, cooperatives employed an estimated 12.6 million people or 0.2% of the world's population in 2017. Agricultural cooperatives make up of almost a third of all cooperatives worldwide. With regard to New Zealand, Fonterra is ranked as the 35th largest cooperative in the world based on turnover ("World Cooperative Monitor 2019 | ICA Monitor", 2019). When compared to other business organisational forms, cooperatives are distinctive in that there is a relationship between the member-ownership and member-supply/ consumption, which other business forms such as IOFs do not have. The New Zealand cooperative organisation body has defined the various types of cooperatives as producer cooperatives which are generally farmers; purchasing/ shared services cooperatives; banking cooperatives; consumer Cooperatives; insurance Mutuals; and Worker cooperatives ("Types of Cooperatives", 2017). The Australian Government has described types of cooperatives as being consumer-owned, employee-owned, enterprise owned and hybrid multi-stakeholder owned ("Cooperatives, Mutuals and Member owned firms – Parliament of Australia", 2017). Australian cooperatives are further differentiated as being either distributing or non-distributing cooperatives, in which the latter can distribute excess profit back to their members, and the former non-distributing

Cooperatives which are not allowed to distribute surplus profits ("Types of Australian cooperatives", 2017).

The chapter inspects and analyses the Australasian cooperative business through a cooperative principle lens as a fundamental element of member governance. There is little other research that has taken the approach of examining the practical implementation of principles in the cooperative operating setting. Novkovic (2008) highlighted the gap in economics research. No detailed research could be found examining the Australasian cooperative policy environment in any detail. A sample of countries was chosen on the basis where variations or another set of cooperative principles existed; these were then mapped to the ICA set to understand the point of deviation and what the deviation could mean. Cooperative principles are academically accepted as the input to cooperative law (Münkner, 2015; Cracogna et al., 2013; Hénry, 2012). This chapter examines cooperative principles from various geographies of the developed world to support the hypothesis that cooperative law is constructed on internationally accepted cooperative principles. Using guidelines for cooperative law (Münkner, 2015; Hénry, 2012; International Cooperative Alliance for the Americas, 2009), the laws of New Zealand and Australia are then analysed. Likewise, other laws in New Zealand and Australia are examined against the guidelines to gain an understanding of the effectiveness of the laws, which sections of the legislation are effective, and which sections of the legislation may need further consideration. The chapter examines the cooperative principles as applied in the cooperative law specifically for dairy cooperatives in Australasia as there are specific requirements in the New Zealand law that relate to the registration of a dairy cooperative and the prevalence of dairy cooperatives in the agricultural sector in Australasia. This research is important as it will highlight the effectiveness of the New Zealand and Australian Cooperative laws providing a view on the quality of the policy environment in which New Zealand and Australian cooperatives operate. The comparison against the guidelines will allow for an understanding of the maturity of the current policy environment taking a theoretical view when applying the cooperative principles. Finally, conclusions and recommendations are formulated, including recommendations for further research.

2.2 Chapter-2 Research Questions and Hypothesis

This chapter examines the role of cooperative principles and how these have been implemented in the cooperative law for various regions and then specifically the Australasian implementation. The overarching research question and hypothesis for this chapter are specified below:

2.2.1 Overarching Research Questions:

How have the cooperative principles been accepted and applied in regions across the globe? How effective has the implementation of the principles been when translating the cooperative principles into cooperative law? What improvements can be made to the principles so that policymakers can apply these principles to the creation of policy to protect cooperative members?

2.2.2 Overarching Hypothesis:

The translation of principles into law is problematic, especially where the principles itself is less defined. Furthermore, New Zealand has not effectively implemented the principles of cooperation in their cooperative law, and the Australian cooperative laws may be at a relative disadvantage when compared to the law that governs IOFs.

2.2.3 Chapter-2 Research Questions.

The overarching research question is broken down into components as listed below that assist in the analysis of this element of governance. These are proposed as follows where S-RQn is the number of the Subordinate Research Question:

S-RQ1: Globally, how have the different sets of cooperative principles been implemented?

S-RQ2: How effective is the implementation of cooperative principles in Australasian law?

2.3 Chapter-2 Methodology and Data Sources

The primary methodology used in this chapter was Qualitative Content Analysis (Krippendorff, 2013) and Document Analysis (Bowen, 2009). An analysis of the principles and their intent was performed by applying Content Analysis (Krippendorff, 2013) and Document Analysis (Bowen, 2009). The principles were tabulated, and in conjunction with literature, commentary on the understanding of what each of the principles represented was achieved. The limitations of this approach are that interpretations could be imprecise, especially when examining the “intent” of the application applying the principles in cooperative law. However,

the Content Analysis phase can be accurately achieved using other scholarly research as a baseline (Hill & Dolusnitz, 2014; Reynolds, 2013; Birchall, 2005; Zeuli and Cropp, 2004) to ensure interpretation errors are kept to a minimum.

2.3.1 Principles Data Sources

Primary data sources: ICA Principles; USDA principles; Canadian basis of cooperation; UK FCA guidance.

Secondary data sources: Literature on ICA principles; critiques on principles; ICA guidelines

2.3.2 Law Data Sources

A selection of countries was chosen based on their legislative structure. For example, Australia has a federal government, so a comparison of provisions within the laws of India (federal), Canada (federal), Brazil (federal), and the EU (federation) was made. Similarly, as New Zealand has a central government, so a comparison against France (central), Germany (central), the United Kingdom (central), and South Africa (central) was made. Both developed and developing countries were chosen to ensure a broad understanding was achieved. The remainder of the chapter examined and analysed the laws of New Zealand and Australia. The methodology used in this part Comparative Legal Analysis (Van Hoecke, 2015), Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013) for the laws of the countries under study. In this way, an understanding of how the law was constructed was achieved. The interaction of the principles by direct or indirect means was then examined. This allowed for the law to be scrutinised for intent and mapped against the first stage principles achieved above. Once the mapping of the principles was completed, the output was mapped again against the Principles of European Cooperative Law (PECOL) work, which was chosen as being the framework against which all of the laws could be baselined. The reason for choosing PECOL as a framework is that no other comprehensive framework exists that has sufficient detail to compare against the laws chosen in this chapter. The authors (Fajardo-García, Fici, Hénry, Hiez, Meira, Muenker, Snaith) created the guidelines for Europe; however, they do maintain that it might be useful for other regions as well. Another framework that was considered was the Cooperative Law and Regulation Initiative (CLARITY, 2020) which is an organisation promoting cooperative law in developing countries. CLARITY was considered for use as a framework; however, it is a non-academic handbook rather than a theoretical framework and was rejected on this basis.

Primary data sources Australia: Cooperative Law (State-based); Australian Uniform Cooperative Laws Agreement (AUCLA); other relevant laws that affect cooperative operation.

Primary data sources New Zealand: Cooperative Companies Act; New Zealand Companies Act; Dairy Industry Restructure Act; other relevant laws that affect cooperative operation.

2.4 The Principles of Cooperation

This section analyses the sets of cooperative principles exploring the background, application, and implementation of the principle sets. Using comparative analysis, it contrasts their differences and similarities to understand the intention based on available literature. A principle can be defined as "*A general scientific theorem or law that has numerous special applications across a wide field*" (Oxford Dictionaries, 2017). In support of this definition, a legal dictionary defines principles as "*Fundamental truths or doctrines of law; comprehensive rules or doctrines which furnish a basis or origin...*" (Black's Law Dictionary, 2017). Principles are important sources of the law with legal principles forming the basis of laws (Daci, 2010). The first cooperative principles were documented in the 19th century; however, it is widely acknowledged that the cooperative form had already existed for centuries. For example, in ancient India during the Vedic age between 1500 BC and 500 BC, some of the first cooperative forms were documented (Srivastava, 1962). The Rochdale weavers were seen as having their origins in Owenite-type philosophy which came from the works of the 19th-century social reformer Robert Owen. Owen stood for a radical transformation of society, subscribed to early forms of socialism, trade unionism, community-based organisation, and is considered a predecessor of the cooperative movement (Garrett, 1972). As the Owenite movement was active in Rochdale, this influenced the thinking of the Rochdale founders, which in turn influenced the documented Rochdale principles as many of the founders were Owenites themselves (Fairbairn, 1994).

It is essential to understand these principles as these have formed or influenced the source of common law and the legislation of various regions over the past three hundred years. Scholars (Guzmán, Santos & Barroso, 2019) have positively linked the application and adoption of cooperative principles to cooperative performance in a study of worker cooperatives. Three types of implementations of the principles can be found globally. The

most common method of enactment is legislation based on the International Cooperative Alliance set of 7 principles (ICA-7). Alternative cooperative principles that can influence cooperative law enactment include the United States Department of Agriculture set of 3 principles (USDA-3) although these principles have not been used other than to assess the cooperative nature of an entity. There are other enactments where regions/ countries have accepted the ICA-7 principles in some form by redefining or applying a subset of the principles. Examples of the latter implementations are the Canadian set of 8 (Canada-8) *Basis of Cooperation* principles and the United Kingdom (UK) Financial Conduct Authority's (FCA) definition of a cooperative. Other countries, such as New Zealand, do not refer to any cooperative principles within their policy framework. Each of the regions, excepting the European Union (EU), examined in this paper are former colonies of Great Britain. Therefore the influence of the original Rochdale Principles and subsequent evolution to the current ICA-7 principles is used as a base for the comparison. Table 2.1, below, maps the different sets of cooperative principles against that of the International Cooperative Alliance seven principles (ICA-7). The research led by the Study Group on European Cooperative Law (SGECOL) Draft Principles of European Cooperative Law is used to baseline the provisions.

ICA-7 Principle	Canada-8	USDA-3	UK (FCA)
ICA-P1 Voluntary and open membership	✓		✓
ICA-P2 Democratic member control	✓	✓	✓
ICA-P3 Member economic participation	✓	✓	✓
ICA-P4 Autonomy and independence			✓
ICA-P5 Education, training and information	✓		
ICA-P6 Cooperation among cooperatives			
ICA-P7 Concern for community			

Table 2. 1 Mapping of ICA Principles

(Source: ICA, Canadian Federal Government Website, United States Department of Agriculture; United Kingdom FCA website)

*Please refer to Appendix 2.2 for details on mapping of the above principles.

2.4.1 The ICA-7 Principles

Often linked to the establishment of the Modern Cooperative Movement, the Rochdale Society of Equitable Pioneers was founded in 1844 in Rochdale, Lancashire, England ("Rochdale Pioneers Museum", 2017). At formation, the cooperative created their *Articles of Association* containing statutes which elaborated on the activities of the cooperative. These statutes, contrary to some research, did not limit Rochdale to consumer type cooperation as

we know it today but included worker, housing, and agricultural cooperative activities (Fairburn, 1994). The original statutes contained wording that included certain cooperative principles. These principles included open membership (members had to be approved but could leave with notice), member control, sharing of profits, and democratically elected officers although no mention was made of one member one vote (Fairburn, 1994; Lambert, 1963). In the next decade, several changes were made to the Rochdale principles including the introduction of one-member-one-vote (1845), the treatment of surpluses and creation of reserves (1854), and the provision for education (1854). In London in 1895, cooperatives from many parts of the globe agreed to form the International Cooperative Alliance (ICA). Significantly, the Rochdale principle of open membership was expanded to include broader anti-discriminatory wording. The following year, at the ICA Paris congress of 1896, the wording was added for the separation of the cooperative from any "party", or Government, thereby constructing the autonomous principle (Watkins, 1970). In 1937 more changes were made to the seven principles, of which four were stated as being essential (open membership, democratic control, distribution of surplus in proportion to patronage, and limited interest on capital). The remaining three (political and religious neutrality, cash trading, and promotion of education) were acknowledged as being features that would not preclude a cooperative from admission into the ICA if these principles were not complied with. By 1995, at the ICA Congress, the principles were reformed (there were other minor changes suggested by Lambert in 1959, the ICA in 1966, and by Watkins in 1986) to the seven current principles. The International Cooperative Alliance (ICA) currently defines a cooperative as "*A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*" (ICA, 2017). The ICA principles and definition have been widely accepted and can be found within laws, articles of association or founding constitutions and Cooperative organisations globally. The principles of cooperation apply to different types of cooperatives. However, they are not limited to any cooperative type in particular. The ICA-7 principles of cooperation are *Voluntary and open membership; Democratic member control; Member economic participation; Autonomy and independence; Education, training and information; Cooperation between cooperatives; and Concern for the community*. In support of cooperatives and their contribution to the global economy, the International Labour Organisation (ILO) published recommendation 193 in 2002 "*Promotion of Cooperatives*

Recommendation 2002". Included in this recommendation was an annexe which outlined the 7 ICA principles (International Labour Organisation (ILO), 2002). The recommendation was that member states of which, for this chapter, included New Zealand, Australia, Canada, European Union, United Kingdom, and the United States ("Alphabetical list of ILO member countries", 2017) implemented recommendation 193. It must be mentioned that the ILO has two methods for passing proposals onto member states, a ratified convention where the member states are obliged to consider the implementation of the resolution (Article 22 of the ILO Constitution), and recommendations, where the obligation on members is to ensure that the recommendation is brought before the relevant authorities within the member states for consideration (Article 19 (6d) of the ILO Constitution). It is pertinent to point out that the comprehensive work of Cragna et al. (2013) on International Cooperative law (Cracogna, Fici, & Hénry, 2013) argues that ILO Recommendation 193 is legally binding on member states as a source of international cooperative law; however, it is clear from the ILO constitution (Article 19 (6d)) that this is not the case and as a result, other modified cooperative principles have emerged in Canada and America. New Zealand tabled ILO Recommendation 193 to the New Zealand Parliament (New Zealand Government, 2002) without further action or implementation. ILO recommendation 193 was tabled to the Australian Parliament as a paper (Australian Parliament, 2004). Subsequently, the principles were adopted in various forms in all Australian State cooperative legislation.

Many scholars (Hill & Doluschitz, 2014; Reynolds, 2013; Birchall, 2005; Zeuli and Cropp, 2004) believe that the first three principles of *Open membership*, *Democratic member control*, and *Economic member participation* have been successful in application. The fourth principle of *Autonomy and independence* has been problematic in that many of the commerce laws within countries and regions tend to class a cooperative as a type of corporate firm without regard to the social aspects as contained in the ICA cooperative definition. The remaining three principles of *Education training and information*, *Cooperation amongst cooperatives*, and *Concern for community* are idealistic according to some (Hill & Doluschitz, 2014; Oczkowski et al., 2013; others) as the wording is seen as value-based and therefore is difficult to apply in law across different regions, cooperative types and ethnic groups. Furthermore, these principles were constructed for the ICA conference in 1995 and subsequently adopted as the definitive statement containing the set of principles, no changes were made to the seven core

principles notwithstanding the difficulty in applying or legislating the principles of *Education training, and information; Cooperation among cooperatives; and Concern for community*. To further assist in the implementation of the principles, the ICA published *Guideline Notes to the Cooperative Principles* in 2015. The Global Financial Crisis of 2008 and 2009 changed many of the rules on how commerce is carried out. For example, there were additional restrictions placed on the capital requirements of banks which has impeded the operation of cooperatives who are seeking to raise capital against their assets in order to remain competitive (Deloitte, 2012; International Cooperative Alliance, 2012). The Rochdale principles have been built on and changed from time to time to the current ICA-7 principles we have today though some scholars (MacGillivray & Ish, 1992) believe the principles were never meant to be static and should be adapted to changing global economic conditions. Novkovic (2008) highlighted the principles as being one of the major differences between the more common IOF and cooperative organisations.

2.4.2 USDA-3 Principles

In the United States of America, deviation from the pure ICA-7 principles has taken place. The United States Department of Agriculture (USDA) has taken on the role of assessing cooperative laws on behalf of American cooperatives, notwithstanding many of the largest cooperative organisations in America are not agricultural (National Cooperative Bank (NCB), 2016). In 1987, the USDA adopted a cooperative definition in which there were three principles: *User-owner, User-control, and User-benefit*, it must be pointed out that at that time, these three cooperative principles were derived from the then existing 1966 set of 8 ICA principles. In 2013, the USDA-3 principles were re-examined and validated without change by the USDA (Reynolds, 2013). The principles that have been adopted by the USDA do not address some of the ICA-7 principles, specifically the *Open membership; Education, training and information; Cooperation among cooperatives; and Concern for community*. There is no evidence that these principles have been used for any cooperative law enactments within America. However, many of the ICA-7 principles are entrenched in the United States state cooperative bodies and can be found in various bylaws of the cooperatives. Although the USDA-3 and the ICA-7 principles do not exist in the letter of the law, certain aspects are indirectly mentioned within provisions of the state laws.

2.4.3 Canadian Basis of Cooperation

Canada accepted the ICA-7 principles following ILO recommendation 193; nevertheless, the legislation redefines the ICA-7 into a new set of principles, thereby making it easier to legislate. There are considerable overlaps with the Canadian version of the principles and the ICA-7. The Canadian redefinition of the principles was an attempt to allow for more straightforward application in the legislation. The Canadian redefinition of the principles maps closely to the ICA-7 principles in open membership; *Democratic member control*; *Member economic participation*; and *Education, training and information*. Significantly, the ICA-7 principles of *Autonomy and independence*, *Cooperation among cooperatives*; and *Concern for community* have no mapping in the Canadian cooperative legislation.

2.4.4 United Kingdom Cooperative Assessment

Similarly, the United Kingdom Financial Conduct Authority (FCA), which is responsible for the conduct and relevant prudential regulation for the UK, published guidance in which it defined cooperative entities based on the first four ICA-7 principles of *Voluntary and open membership*; *Democratic member control*; *Member economic participation*; and *Autonomy and independence* (Financial Markets Authority, 2015). The FCA went on to state that they did not consider the remaining principles of *Education, training and information*; *Cooperation amongst cooperatives*; and *Concern for community* as characteristics that could be evaluated to confirm a cooperative entity. A cooperative would be assessed against the first four ICA-7 principles, the ICA definition and the ICA Values statement.

Notwithstanding the deviation from pure ICA-7 principles in many regions, there is very little literature that links the principles, or the intent of the principles, to a practical implementation in the law. There are commentaries on the various laws (Cracogna, Fici & Henry, 2013) which give us a good understanding of how the law has come about including the various implementations around the world, however, there are few frameworks that allow for the encapsulating of the principles in the law. Münkner (2015) provides us with a discourse of how the ICA principles are reflected in the law; however, the book is mainly based on the 1966 ICA principles which were substantially changed in 1995 giving us the current ICA-7 principles. Henry (2012) provided an excellent guideline for cooperative legislation and provides an "*an ABC of cooperative law*" it is specific enough to be used as a base to analyse

the cooperative laws. H  nry worked on a previous version which is used by ICA Americas similarly providing a clear guideline and is based in large parts of the practical legislating of the ICA first four principles into cooperative laws. This work, published in 2009, was created with the explicit purpose of standardising the South American and Caribbean cooperative law and was adopted by the ICA Americas in 2008 (International Cooperative Alliance for the Americas, 2009). In 2015, a European Union (EU) group of cooperative legal scholars published *Draft Principles of European Cooperative Law* (Study Group on European Cooperative Law (SGECOL), 2015) with the objective of providing guidance for cooperative law expansion and reform. While the book concentrates on European cooperative law, the intention of the authors was more extensive, *"In that regard, it envisions PECOL's use as a guide for cooperative law expansion and reform throughout Europe, and beyond, and as a general orientation to and a set of established best practices for both legislatures adopting new, expanded or reformed legislation and for courts interpreting cooperative law"*. It is of no surprise that the scholars who created PECOL are recognised cooperative legal scholars who had published other cooperative legal papers; these authors included: Fici, H  nry, M  nkner, and Snaith. Using a combination of the works of PECOL, Cracogna et al. (Cracogna, Fici & Henr  , 2013), M  nkner (M  nkner, 2015), H  nry (Henr  , 2012) and International Cooperative Alliance for the Americas (International Cooperative Alliance for the Americas, 2009), analysis and benchmark for the laws of any cooperative legislation are made possible. In the next section of this chapter, we will use these guidelines to analyse the cooperative laws of New Zealand and Australia. Nevertheless, it must be stated that many of the issues found with cooperative laws may not have their origin within the specific cooperative legislation but rather in other laws and regulation that deal with other policies on taxation, anti-trust, accounting standards, listing rules for the stock exchanges, and reporting standards to name a few.

2.5 New Zealand and Australian Cooperative legislative environment

The legislative environments that cooperatives operate within New Zealand and Australia have both similarities and fundamental differences. Both environments have common ancillary laws that govern taxation, anti-competitive (anti-trust) behaviour, unfair contracts, and corporations/ companies. However, contained within the detail of the laws mentioned above, a different approach can be observed. Primary cooperative laws are dissimilar in their origins influences and implementation approach. For example, cooperative laws in Australia are state-based laws but have a commonality in that they are mostly modelled on a non-compulsory standardised law agreement.

On the other hand, the New Zealand national cooperative law relies principally on provisions in the Companies Act 1993 and the Dairy Industry Restructuring Act (DIRA) 2001. When contrasted, there are advantages and disadvantages to each approach, yet when compared to best practice, the limitations of each model become evident. This section discusses the legislative environments of New Zealand and Australia, providing an analysis of the laws when evaluated against the theoretical framework of PECOL with minor modifications.

2.5.1 New Zealand policy environment

The New Zealand legislative environment for cooperatives besides the Cooperative Companies Act 1996, includes two other essential Acts that guide the application of the law, the Companies Act 1993 and DIRA 2001 with its associated amendments for dairy cooperatives. Other laws affect the operation of a cooperative in the legislative sense include the Companies Act 1993, Income Tax Act 2007, the Commerce Act 1986, the Competition and Consumer Act 2010, and other ancillary legislation. Additionally, there is the *Industrial and Provident Societies Act 1908* (New Zealand Government, 2020) that can influence cooperatives; however, these are only for cooperatives and societies whose purpose is not for profit.

All cooperatives are obliged to register simultaneously under the Companies Act 1993 and the Cooperatives Companies Act 1996. Additionally, dairy cooperatives are subject to further provisions as contained in Part 3 of the Cooperative Companies Act, where they are required

to register as a dairy cooperative. Additionally, the provisions of DIRA 2001 apply for all Dairy business entities, including Dairy cooperatives. Special provisions are in force for cooperatives as contained within the Tax Act that relate to dividends, transactional (product/ service) pay-outs and surpluses. New Zealand has enacted legislation to handle competition and anti-trust behaviour which is similar to other countries. The Unfair Contracts legislation is a more recent development where the legislation attempts to protect consumers from onerous or unfair contract terms. While this has not yet had much relevance within New Zealand, it is interesting to note that this legislation has been applied to supply contracts in other regions such as Australia (Competition and Consumer (Industry Codes—Dairy) Regulations, 2019) and may similarly be applied to New Zealand supply contracts in the future most likely within DIRA amendments. Additionally, other legislation such as the Food Act 2014 and the Animal Products Act 1999 applies to all Dairy business entities though only cover off general food safety requirements. Figure-2.2 below illustrates the legislative elements that govern New Zealand cooperatives, in particular, dairy cooperatives.

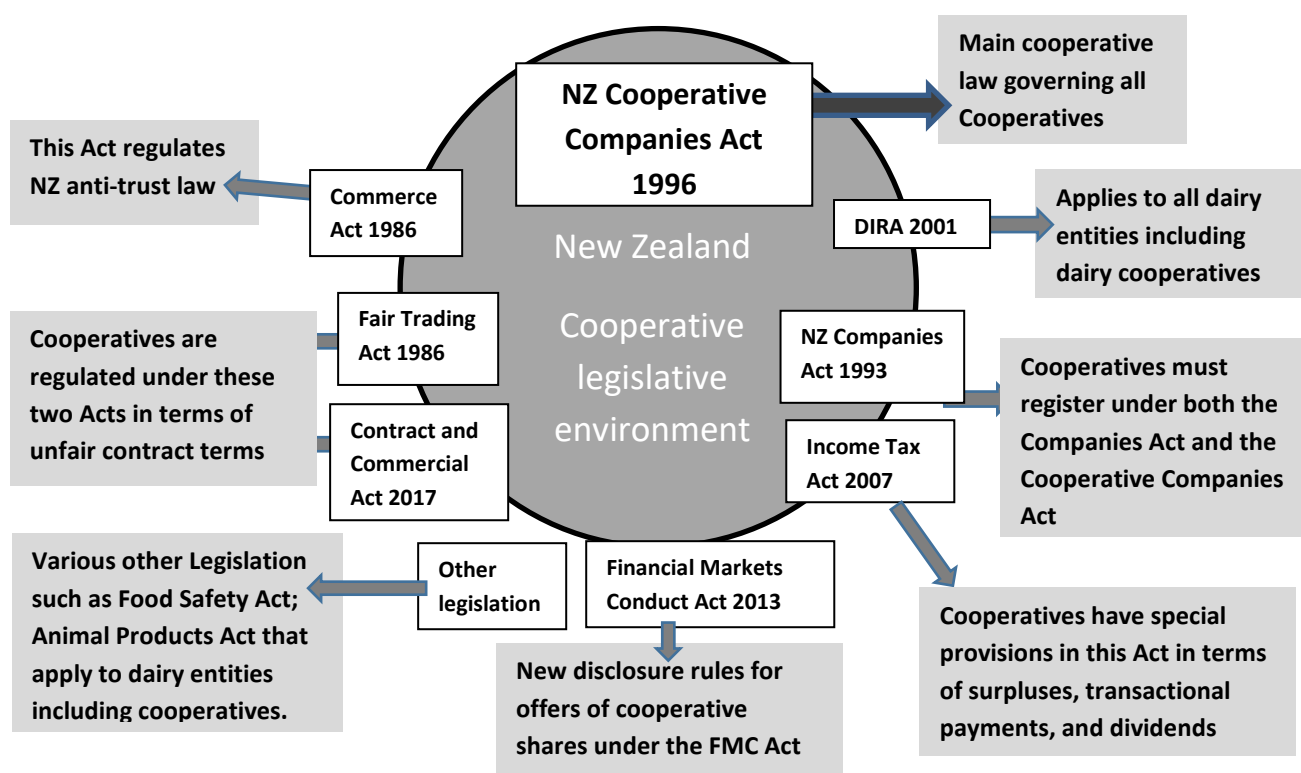


Figure 2. 1 The New Zealand Cooperative Legislative Environment

During the timeframe between the enacting of the Companies Act in 1993, Cooperative Companies Act in 1996, and the enactment of DIRA in 2001, there were external influencing factors that provided the opportunity to influence the evolution of the New Zealand cooperative legislative environment. However, many of these opportunities including the 1995 ICA conference, the ILO Recommendation in 2002 and the subsequent reading of the ILO Recommendation 193 to the New Zealand parliament in 2003, resulted in no changes to cooperative law by applying the ICA principles of cooperation. Figure 2.3 below provides a timeline with the most appropriate markers portrayed, in particular, for dairy cooperatives.

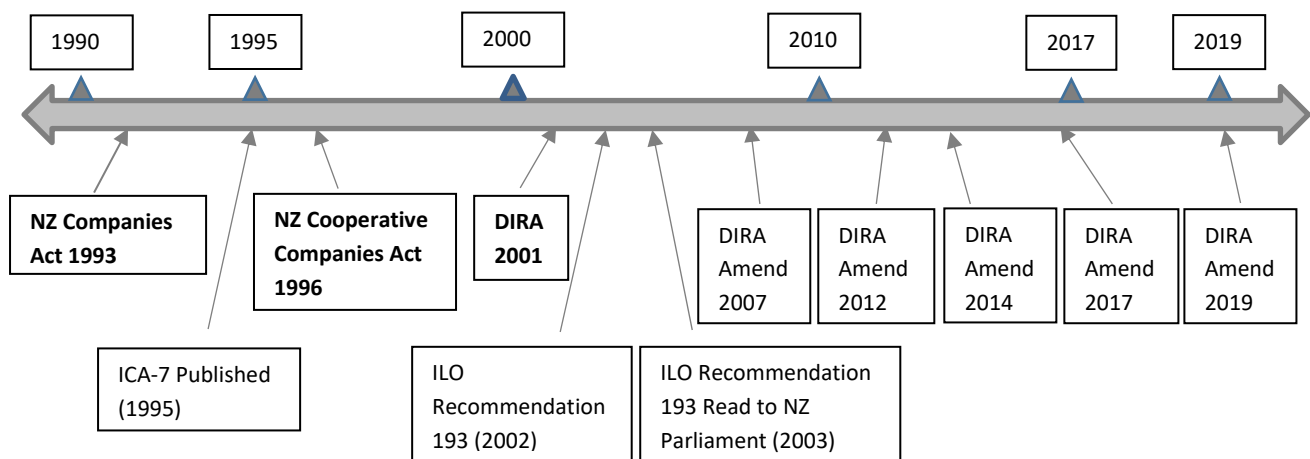


Figure 2. 2 NZ Co-op Legislation Timeline and ICA Principles (showing Dairy Cooperative impact)

Analysis of the Cooperative Companies Act 1996 for evidence of the internationally accepted principles of cooperation, provides a view on what elements should be considered for inclusion within the New Zealand cooperative laws to revise these laws to a standard that other regions have adopted such as Canada, the United Kingdom and the European Union. There is partial support for the ICA Principle-2 (*Democratic member control*) as section 2 provides that not less than 60% of the voting rights are held by transacting shareholders. However, the definition of a transacting shareholder also includes provision for other persons that enter into "other" commercial transactions with the cooperative company and not necessarily using the service or entering into a supply contract with the cooperative. The Act requires that there is a simultaneous registration with the Companies Act 1993 which, when

compared to other regions, links the Act to other commercial entities such as for-profit firms. The Companies Act 1993 deals with all business entities and as a result, has overarching provisions which are in force unless the specific provision in another Act (such as the Cooperatives Companies Act) overrides the Companies Act provision. Other regions have separated the registration of cooperatives from for-profit IOFs (IOFs) to ensure the unique identity of a cooperative remains intact.

In contrast to other international laws, the New Zealand law does not differentiate between divisible and indivisible reserves, which allow for any dividends, surpluses or other payments. Section 22(4) treats the consideration for the surrender of shares as unsecured debt, other international regions have treated this as equity which allows it to be applied for capital borrowing. Cooperatives have recognised and well-documented difficulties in raising capital, so when lending institutions examine the Balance Sheet, they treat shares as debt rather than equity which negatively influences standard financial calculations and ratios. The Cooperative Companies Act 1996 makes multiple mentions throughout the Act to the use of the constitution, allowing the same to override the provisions in the Act in numerous key sections. For example, under Section 33 the voting rights of the shareholders are limited to transacting shareholders, which as mentioned above could include other parties not necessarily supply/service contact members, even though this provision can be overridden by the constitution of the cooperative company. It is not within the scope of this chapter to examine the constitutions to see how these provisions have been implemented; this is examined in the following chapter. However, it is sufficient to state the reliance on anything outside the Act could have governance consequences for cooperative members. Under Part-3 of the Act for cooperative dairy companies, section 39 ensures only suppliers can be shareholders but once again is subject to the constitution. The strength in the Act in this regard is that changing the constitution requires at least 90% of the shareholder vote. No provision is made for the cooperative company to report on a subsidiary company's performance unless once again, it is in the constitution. This omission could create a situation, for example, where members have no oversight of subordinate business entities of the cooperative. Other ICA-7 international principles of cooperation are not evident other than the mention of the *Democratic member control* and partial provisions for *Member economic participation*.

DIRA has had far-reaching implications for the cooperative dairy environment. Although DIRA applies to not only dairy cooperatives but other business forms as well, the impact it has had on cooperatives when viewing the Act through the ICA principles lens is evident. DIRA was enacted to create two new entities, Fonterra and Livestock Improvement Corporation (LIC). It was enacted to legislate the merging of two dairy cooperatives, New Zealand Dairy Group (NZDG) and Kiwi Cooperative Dairies Limited. Additionally, the Act also formed the Livestock Improvement Corporation (LIC) and disbanded the Dairy Board (Woodford, 2015). There is evidence of ICA principles, either supporting these principles or negating them in some cases. *Voluntary and Open Membership* is entrenched in section 73, yet it is without the discriminatory provisions as stated within the ICA principle.

Again, in section 49 there is mention of *Democratic member control* in which limits the voting rights of members although, the Act also allows for voting rights to be limited to a maximum of 1% of the total voting rights by any person. This provision conflicts with the one-member-one-vote principle.

Furthermore, in section 161 of the Act, there is a provision that allows for a subsidiary of a cooperative to own shares in the cooperative, which could affect member control. Additionally, there are numerous sections which have the effect of negating the *Autonomy and independence* principle in that it allows for the government intervention either through the Minister, other Acts, or regulations to limit the self-control exercised by the cooperative, see for example; Sections 51; 63; 64; 65; 71; 115. The remaining principles of cooperation are not in evidence, notable the *Member economic participation*, which is left mainly to the constitution, which is outside the scope of this chapter. In 2019, an amendment to the current DIRA legislation was enacted by the New Zealand parliament. These changes included the provision that Fonterra no longer is forced to accept new members where these members are either a conversion or moving from another cooperative. The effect of this change is to negate one of the most contentious principles of cooperation, that of ICA-1, *Voluntary and Open membership*. Additionally, Fonterra may also refuse to take milk from non-compliant or is considered to be non-compliant in the future, farmers based on Fonterra Standard terms of supply. Other changes that were of note were that Fonterra's standard terms of supply included provisions that encompassed sustainability rules which included environmental, animal welfare, and climate change.

Other legislation, which serves to support or negate the ICA principles of cooperation include anti-trust legislation which is governed under the Commerce Act 1986. This Act does not explicitly exempt cooperatives from many of the cooperative operational practices that might be deemed as anti-competitive. Contract law and in particular the Unfair contract legislation is governed by the Competition and Consumer Act 2010, which could impact cooperatives when negotiating a supply contract with a dairy farmer, for example. The legislative environment in New Zealand is complicated when compared to other developed regions; the effect that DIRA legislation has had on the dairy cooperatives has seemingly impeded the natural development of the cooperative law. However, the mandating of a Milk Panel to calculate the price of milk (DIRA 2001 S150) received from the farmers using specific criteria and having to show all calculations in setting the milk price has contributed in part to the ICA principle of *Education, training and information*. It seems by the absence of farmers protests concerning the milk price and calculation that this method is working effectively.

2.5.2 Australia policy environment

Australian implementation of the law on the creation and operation of a cooperative is complex mainly as a result of the federal nature of the Australian Government. The laws that affect and hold powers over cooperatives include the Australian Constitution, the Corporations Act 2001, and other laws or regulations such as taxation law, anti-trust laws, accounting reporting standards, and ASX listing rules. Laws directly affecting cooperatives include the Australian Uniform Cooperative Laws Agreement (AUCLA) of which a number of states have signed-up to, as of June 2020 all eight major states and territories have enacted their own state-based cooperative law based on the AUCLA guidelines. Furthermore, the taxation on Cooperative surpluses is regulated by the Income Tax Assessment Act 1997. Other regulation such as the ASX listing rules similarly applies to those Cooperatives that have listed cooperative capital units or trading shares on the stock exchange and is regulated under the Australian Securities and Investment Act 2001 (ASIC Act 2001).

Before 1901, Australia existed as six separate British colonies governed by the British Parliament and British law. The British Parliament enacted the Australia constitution, which came into effect on 1 January 1901. With this enactment, certain powers were transferred to the Australian Commonwealth Government while any specific state laws that were not in conflict with the central federal government laws would apply to that state in question only. The highest law in Australia is, therefore, the Australian Constitution, changes to which can only be made by public referendum. In 1986, all of the remaining legal links between Australia and the British Government were removed (Australia Act, 1986). The constitution is broken up into eight chapters dealing with various aspects of Government. For this section, only the pertinent chapters are listed. Chapter 4 deals with financial and trade matters. Chapter 5 deals with the legislative powers of Parliament including what powers remain within the States including a specific provision to deal with Federal-State law conflicts where if there were an inconsistency of laws between the state and federal laws, the federal law would prevail. Finally, Chapter 8 describes the method by way of a referendum way the constitution is altered and lays out the requirements for the change using a referendum. Examining constitutional provisions that could affect trade, finance and the operations of a corporate entity, a few specific sections and subsections require mention. Under the Constitution, part

5 describes the legislative powers that the Parliament can use; in particular, Section 51(i) affirms that the Commonwealth has the power to legislate trade and commerce with other countries and between the States. Section 51(xx) affirms the legislative power the Commonwealth has as regards to "*Foreign Corporations and trading or financial corporations formed within the limits of the Commonwealth*". Under section 55 the Commonwealth has legislative power dealing with Tax and Custom/ excise.

The *Corporations Act 2001* was enacted under section 51(xxxvii) of the Australian Constitution, which allows a law to be passed by the Commonwealth once a matter has been referred to the central Commonwealth parliament by the State parliaments. In this case, the laws dealing with companies and corporations were referred to the Commonwealth and hence the passing of a federal law that has jurisdiction over all states. However, the Australian Corporations Legislation, by definition, applies only to "for-profit" companies. This definition is problematic when applied to cooperatives, and thus this legislation does not apply to cooperatives, and thus the need to create a set of laws governing the cooperatives at a federal level has been argued (Apps, 2016). Even the existence of large cooperatives that have capital units listed on the Australian Stock Exchange, while still retaining the member-control foundation, has not allowed these cooperatives to be included in a hybrid company structure law and could place these cooperatives at a distinct disadvantage to investor-owned public companies (Limnios et al., 2016). The Corporations legalisation governs commercial entities within Australia and is a federal law with all states are obliged to comply with the provisions contained within. Cooperatives are excluded from the Corporations legislation, however, are governed by State legislation by an agreement reached in 2012 in the Australian Uniform Cooperative Laws Agreement (AUCLA). The Australian model law includes the International Cooperative Alliance (ICA) accepted international seven cooperative principles. However, the linking of the provisions to the principle is not always explicit. Table 2.2 below illustrates the Australia State and Territory participation in AUCLA, highlighting any deviation from the standard AUCLA Cooperative law agreement. Figure 2.4 below lays out the major laws that affect cooperative operations within Australia.

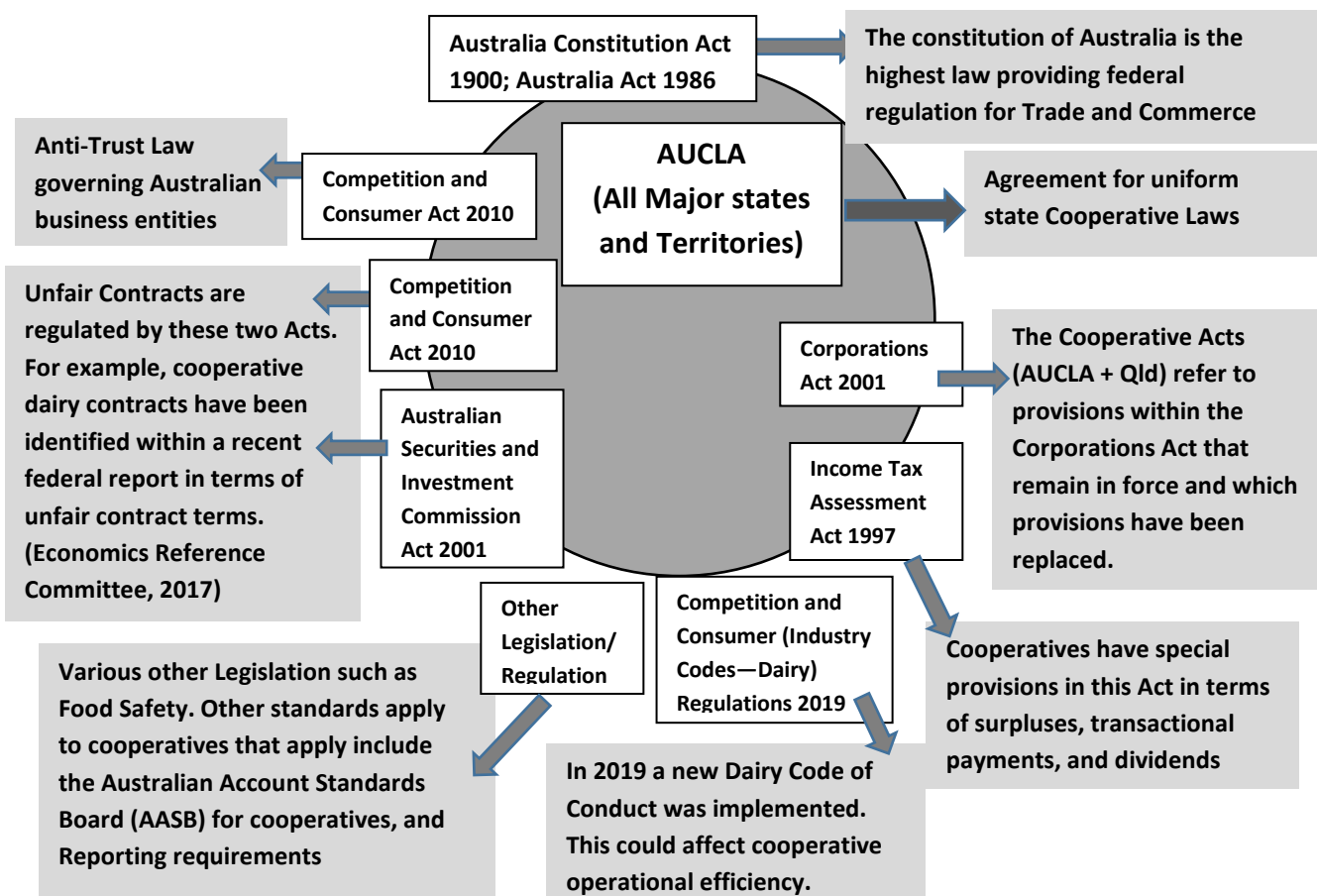


Figure 2. 3 The Australian Cooperative Legislative Environment

As each of the Australian States and Territories was separate colonies of Britain until the enactment of the Australian Constitution in 1900, effective January 1901, the cooperatives that existed and the laws that governed them for each of the states were left mostly unchanged. A movement in the latter half of the 20th century saw an attempt to standardise cross-state border trade between cooperatives. Under the enactment of the 1996 *Cooperatives Laws Agreement*, the States agreed to adopt an approach for a uniform, standardised cooperative law based on a collection of *Core Consistent Provisions (CCP)*. By 2002, all states and territories except for Western Australia had adopted the CCP; however, the legislation was still specific to the respective State or Territory. Until 2012, each of the six states and two Territories in Australia was and are still governed by their respective cooperative laws with cross-state cooperatives, often finding it difficult to expand past their State incorporation boundary. In September 2014, Queensland informed the Consumer Affairs Forum of its intention to withdraw from the Australian Uniform Cooperatives Law

(AUCLA) from 1 January 2015. Queensland, on its exit, stated that it would predominantly follow the same principles of law as the AUCLA and this is reflected in its enacting law. This changed in 2020 when the new Queensland cooperative law bill was accepted in Queensland State parliament based on AUCLA (Co-operatives National Law Bill 2020).

No	State/ territory	Part of AUCLA (Y/N)	State Enactment / Commencement Year (Parliament Bill/ Law)	As In-force at (Date)	Alignment with Co-op law theory (Y/N)
1	New South Wales	Y	2012/ 2014	3/3/2014	Partial ¹
2	Victoria	Y	2013/ 2014	3/3/2014	Partial ¹
3	South Australia	Y	2013/ 2015	22/5/2015	Partial ¹
4	Northern Territory	Y	2016/2017	1/5/2016	Partial ¹
5	Tasmania	Y	2015/ 2015	12/08/2015	Partial ¹
6	Western Australia	Y	2010 amended 2017	1/1/2017	Partial ¹
7	Australian Capital Territory	Y	2017/ 2017	1/5/2017	Partial ¹
8	Queensland	Y	2020/ TBD ²	TBD ²	Partial ¹

Table 2. 2 Australian Cooperative Law Agreement Participation – State View

Source: (NSW Fair Trading,2020)

¹The enactments are largely silent in the application of ICA-7 Principles 5, 6 and 7.

²Queensland Government, while it has not yet commenced its new cooperative law, has passed the Bill and enactment is scheduled for 2021.

The CNL commences at Part 1.1 (s3(b)) with the objects of the law, which are the legal registration and formation, the promotion of cooperative philosophy including the principles, practices and objectives. The CNL continues in that a stated objective is to protect the interests of the cooperatives, the members, and the public in the operations of the cooperative. The law further has as its object the accountability of the directors to the members; to facilitate self-management of the cooperative at all levels while encouraging the development integration of cooperatives at local, regional and national levels. Part 1.3 (s10) is a direct listing of the seven International Cooperative Alliance principles. The law references the Australian Corporations legislation in that Section 5F of the Corporations Act 2001 excludes matters declared by States and Territories to be an excluded matter. Cooperatives and participating cooperatives are thereby excluded from significant parts of the corporations' legislation. In Australian law, there are two types of cooperatives (s17) a

distributing cooperative (s18), which is allowed distributions on surplus or share capital, and a Non-distributing cooperative (s19) that is not allowed to distribute any surplus or give returns on share capital other than the nominal share when a member exits the cooperative. Distributing cooperatives must have share capital, and non-distributing cooperatives may or may not have share capital. New cooperatives are formed by calling a formation meeting (s21, s22) and drafting rules (s23) and submitting these to the Registrar for approval (s24) along with a formation disclosure statement (s25). A cooperative becomes a corporation on registration by the issuance of a certificate of registration by the Registrar (s28). Existing corporations can apply to be registered as a cooperative under this act (CNL) with the same requirements as a new cooperative except that a two-thirds majority of eligible members must vote for the proposal. In Australian cooperative law, the doctrine of *ultra vires* which describes acts attempted by a corporation that are beyond the scope of powers granted by the corporation's objects clause or articles of incorporation or in the laws authorising a corporation's formation does not apply, granting the cooperative leave to operate outside its intended objects (s40). Notwithstanding the doctrine of *ultra vires* not applying, the rules of the cooperative may contain restricting powers to operate outside the cooperative's objectives, but this does not render an act that is not in the objectives of the cooperative invalid (s43). A cooperative's rules are binding on the cooperative and each member and between the cooperative and each director, the chief executive officer and between a member and each other member (s55).

Under the CNL legislation (CNL Schedule 1), the rules of a cooperative must make provision for general membership issues, the rights and liabilities of the members, charges payable by members and the restrictions (if any) on the powers of the cooperative, and the board. Additionally, director issues including the number, qualification and voting of directors, how financial issues are dealt with and the procedure of calling general meetings of members are catered for within the CNL. Furthermore, the procedure of voting at the meetings, including the rights of members, the method of voting, and the necessary majority to carry resolutions is similarly included in the law (CNL). Likewise, the way that postal ballots will be handled needs to be specified, including the manner of voting how the resolutions and votes will be carried out and how the rules of the cooperative are amended. The rules should state clearly for the members benefit whether they are a distributing cooperative, which will distribute

surpluses, or in the case of a Non-distributing cooperative how it will distribute property at winding-up (Schedule1 s2-3).

Member shares are dealt with by legislating the rules on share allotment, the minimum amount that must be paid before the share is allotted, in the AUCLA legislation, this value is 10% for nominal value shares (s76 to s 78). Shares can be issued at a premium (s8) but cannot be issued at a discount (s79), and a cooperative can have more than one class of share as long as this is specified in the rules (s76(4)) and complies with the cooperative principles. General shareholding is legislated by ensuring the law considers joint ownership of shares (s81) additional shares (s82) and bonus shares (s85-s85). Becoming a member of a cooperative, including qualification and corporate members are contained in s110 to s115. Additionally, how membership is terminated is covered (s117 to s119). The rights and liabilities of members are moreover contained within the CNL legislation

Part-3 of the legislation covers the protection of members as far as the board and management of the cooperative are concerned. For instance, the AUCLA states that there must be a minimum of 3 directors and 2 of these should be ordinarily resident in Australia (s172ss2). Furthermore, one of the qualifications of the board as a whole contains a provision stating that the majority of directors must be member directors (s174) thereby protecting the interests of the members in ensuring there is no divergence away from the interests of the cooperative. Moreover, there has to be at least 50% of the directors' present at any board meeting, and a majority of these must be member directors (s175). If the rules permit, the board can delegate some functions to board committees made up of either directors or members or members and other persons as long as the members outnumber the "others" (s178). A cooperative should have a secretary of the board, and this person has to be an ordinary person who resides in Australia (s190, s191). The secretary has the same responsibilities as contained in the Corporations Act (s188). In protecting the members there are several provisions in the AUCLA for directors, officers and employees of a cooperative, the basis of these provisions are that these parties must act in the best interests of the cooperative and should take the cooperative principles into account when exercising judgement (s192ss2). Directors and officers have civil obligations to act in good faith, which mirrors the provisions of the Corporations Act (s181) and protects the members from self-interested behaviour from any of directors, officers and employees (s193).

Members have one vote per member unless the rules provide that a member can have multiple votes limited to five (maximum) at any voting of any resolution (s228). However, the member right to vote attaches to membership and not shareholding. The chairperson can have a casting vote in the case of a deadlock. Eligible members can only vote, and inactive members are not allowed to vote (s230). Voting can be carried out by proxy (s229), and a representative can vote on behalf of a member and is entitled to the same rights of a member in every way (s234). Unless the rules provide otherwise every question taken to the members for a decision must be decided by an ordinary resolution (s237). A simple majority of members passes ordinary resolutions at a general meeting or by a postal ballot of members (s238). A special resolution is passed by a two-thirds majority of the cooperative or postal ballot and by three-quarters of a Special postal ballot of members (s239). Special postal ballots are required on a requirement by members or any proposed compromise or arrangement between the cooperative and its members (s249). Annual general meetings are legislated as having to take place within five months of the end of the previous financial year (s252) with special general meetings can be called by the board at any time (s253). Each member is required to get at least 14 days' notice of the meeting before each of the general meetings; a quorum is as per rules of the cooperative and decisions are a show of hands or a poll on the discretion of the chairman (s255/s256). Meetings can be held on the request of the members who between the members have at least 20% of the total number of votes. The cooperative rules can change this percentage in need (s257ss1). Financial reporting and auditing appointment and removal follow the Corporations Legislation Act 2001.

The Australian legislation makes provision for Cooperative Capital Units (CCUs) in the AUCLA, thereby allowing cooperatives access capital funding (s345). CCUs are defined as "*an interest issued by a cooperative conferring an interest in the capital (but not the share capital) of the cooperative*" (s345ss1). CCUs can be issued to non-members of a cooperative with the redemption of a CCU not seen as a reduction in the share capital of a cooperative (s352). A cooperative board may resolve to retain all or part of a surplus arising in a financial year to be applied for the benefit of the cooperative as a reserve (s355). A distributing cooperative may apply a part of the surplus arising in a financial year from the business of a cooperative, or from its reserves, to its members as a rebate; the distribution is carried out in proportion of the business with each member that the cooperative transacts with (s357).

Notwithstanding the provisions discussed above for Australian cooperative law, the direct linkage between the ICA-7 accepted principles as contained section 1.1 (b) and section 1.1, where the ICA-7 principles are listed, can be problematic. For example, the connection between ICA Principle-1, *Voluntary and Open Membership*, and the provisions as contained elsewhere in the Act is cannot easily be found. Again, in ICA Principle-3 of *Member economic participation*, the provisions intimate to the Replaceable Rules of the cooperative rather than spell the requirements within the provisions. Moreover, no provisions can be found for the ICA Principles of *Education, training and information*, *Cooperation between cooperatives*, and *Concern for community*. The ICA Principles that have linkages to the specific provisions include direct relation to *Democratic member control*, indirect connection to *Member economic participation*, and indirect connection to the principle for *Autonomy and independence* in that the cooperatives are regulated in a way that allows for independent operation with little government interference.

Other laws impact the Australian Cooperative environment. One such law is the Competition and Consumer Act 2010, which regulates anti-competitive and general anti-trust behaviour. It is of note that in this instance, in a report by the Economics References Committee in August 2017, one of the areas of concern was the anti-trust component. This difficulty is closely related to the United States anti-trust laws at the turn of the 20th century, where the anti-trust laws of the late 19th century (Sherman Anti-Trust Act 1890) made collective dairy marketing illegal. However, in 1922 the Capper Volstead Act was enacted to give farmers limited exemption for organising marketing cooperatives (Münkner, 2013). The Senate report mentioned above relates to the Dairy industry, although the above-mentioned anti-trust laws and exemptions in the United States relate to cooperatives only. Another law that has created a challenge for the Australian Dairy Industry is the unfair-contract law. This predicament, within the cooperative environment, should not be possible if the law made provisions that were associated with the ICA identity and principles. Finally, the Australian accounting standards (AASB) for cooperatives treat the member shares as debt, whereas cooperative law theory suggests that this disadvantages Cooperatives and should instead be treated as equity (Apps, 2016).

2.6 Chapter-2 Conclusion

The International Cooperative Alliance principles are well established throughout the global cooperative operating environment. Nevertheless, when examining the manner in which the principles have been implemented in various cooperative laws, a consistent approach cannot be found. For example, the United Kingdom (FCA) believed some of the principles were ambiguous and has redefined the ICA principles, Canada has rewritten the principles of cooperation as a "basis for cooperatives" in their law, the United States has their own unique set for state and federal guidance, and some regions are silent on the principles within their law. Furthermore, many of the regional implementations only legislate some of the seven ICA principles. Generally, implementations can be found where there is the legislating of *Member control*, *Member economic participation*, with partial support found in the legislation for *Voluntary and open membership*, and *Autonomy and independence*. Little support is found for *Education, training and information*, *Cooperation among cooperatives*, and *Concern for community*. Therefore, improvements are possible in both the local and international legislative environments to cater for a more comprehensive approach in translating the ICA principles into a law which improves cooperative governance and therefore can protect the voice of the cooperative owners, the members.

In examining the New Zealand cooperative environment, it appears that the evolution of cooperative law, while being described as flexible (Woodford, 2008), has been impeded in some way by the enactment of Dairy Industry Restructure Act in 2001. The provisions in the DIRA 2019 Amendment Act have extended the current DIRA regulation timeframes. With the next report on the state of dairy competition due after 2020, some form of deregulation of the dairy industry may be considered within the next few years. This anticipated deregulation will potentially leave a gap in the law as far as cooperatives are concerned which the current Cooperative Companies Act 1996 might not satisfy. The fact that New Zealand cooperative law has not been updated since 1996, and cooperatives are still seen as a special type of company will impede the development of cooperative law within New Zealand. Consequently, New Zealand legislators should re-examine and update the current cooperative law to include provisions for the core ICA principles as already adopted in other regions. Furthermore, the cooperative law should be separated from the Companies Act

1993, allowing it to operate in its own right. These suggested changes would allow for a more contemporary cooperative policy environment which recognises the unique nature and value of the cooperative entity.

The Australian Constitution allows for federally controlled and legislated commerce and trade. The Corporations legislation is Federally enacted while in contrast the cooperative legislation is state-based. For cooperatives in Australia to co-exist on an equal basis without disadvantage, would require a federal law similar but separate to the Corporations Act. Other regions globally have resolved this disadvantage, for instance, the Canadian legislation is state-based if a cooperative operates only within a state, however, if it operates in more than one state or exports goods outside Canada, the cooperative then falls under the federal legislation. This legislative model would allow for community-based cooperatives as well as catering for the sizeable regional and international cooperatives within Australia.

Substantial progress has made to modernise and standardise the Australian state cooperative legislation since the Australian Uniform Cooperative Law agreement. An analysis of the laws found that the link between the ICA principles as contained in the Act and the provisions elsewhere in the Act was sometimes problematic. Additionally, only certain of the ICA principles were found, leading to the deduction that more is yet required in the legislating of the principles. Other legislation, such as the anti-trust laws in the Competition and Consumer Act 2010 could be interpreted as leading to a distinct disadvantage for cooperatives. Cooperatives, by their very nature, require a high degree of collaboration between their member-owners which could, in some cases, lead to a flawed assumption of anti-competitive behaviour. The United States, in the early 20th century, exempted some agricultural cooperatives from collective marketing as this was not deemed as collusion but rather cooperation. The newly implemented Dairy Code of Conduct (2020) removes some of the risk associated with contracting between farmers and Processors in the dairy industry; however, this can interfere with the member-based governance mechanisms of a dairy cooperative. This code forces all processors to pay out the contract price for the season regardless and thus may not deal with the normal fluctuations of the dairy product prices where a cooperative can take, for example, a downturn to their members and agree on a price

reduction rather than a position where the cooperative could face liquidation. In effect, it should be left to the members to govern their cooperative even if this entails a reduction in the contract price for their milk rather than a government-enforced code without exemptions. This code of practice could cause ICA-4 principle of *Autonomy and independence*, which is designed to remove interference from governments.

Further research is needed to understand the problems associated with some of the ICA principles that have been found hard to legislate. The analysis approach taken in this chapter should be validated by other scholars in other regions to understand if the methodology employed can be applied to other regions. Finally, cooperative law has been found to be at a disadvantage when compared to other organisational laws, for example, IOFs, an analysis of the approach taken by other regions to make equal the laws in order for both organisational forms to co-exist on an equal basis should be researched and where possible, applied to remediate some of the concerns listed in this chapter.

It was found that there is a significant and substantial reliance on the constitutions (New Zealand) and replaceable rules (Australia). Numerous provisions in both sets of cooperative legislation defer to these documents which can override the Acts. The analysis of these documents was not part of the scope of this chapter, although an understanding of how the provisions as found in the constitution or rules of the cooperatives change the law is an essential next step in understanding the operating environment for cooperatives. The following chapter, Chapter-3 will provide the analysis and understanding of these documents in more detail.

3. Chapter-3: The Cooperative Constitutional Document

A Significant Member-governance Mechanism

3.1 Chapter-3 Introduction

Good governance of cooperatives has been linked to business performance in many academic studies (Challita et al., 2014; Kyazze et al., 2017; Bijman et al., 2013, others). On establishment, a cooperative is incorporated under the law of the country governing cooperatives (or companies in some cases). Many countries have legislated specific provisions that a cooperative has to comply with within its constitutional document. The consequence of these documents is that they allow the overwriting or modifying of specific cooperative law provisions by the provisions contained in the cooperatives constitutional document. The practice of allowing constitutional provisions to replace specific general provisions found within the respective laws is a common practice throughout the global legislative environment. Constitutional documents serve many purposes. They serve to comply with the mandatory provisions as contained within the specific country's cooperative law; they also serve a purpose to document the membership rules around the services or product the cooperative deals with. Furthermore, the constitution is used to break up the mandatory provisions into more easily understood terms. Most regions that have mandated cooperative constitutional provisions have given the minimum compliance level rather than the maximum; thus, many cooperatives use this document to increase provisions or redefine some rules that apply to membership.

This practice covers many different forms of business structures, including IOFs (see, for example, the New Zealand Companies Act 1993; Australian Corporations Act 2001). Globally, the constitutional document is referred to by many different terms including constitutions, replaceable rules, by-laws, articles of association, and memorandums of association. Since these allowed replacements are implemented outside the law for each cooperative, it is possible that the constitutional provisions can have far-reaching consequences, sometimes years after formation. When exploring the intent and content of the constitutions, an IOFs constitution would likely differ from a cooperative's constitution, especially in the obligations regarding the relationship the entity has with its shareholders. For example, in a dairy cooperative, the shareholders are the suppliers of milk. Throughout the lifecycle of the

cooperative, provisions and rules should be adapted to suit the changing business environment and ongoing changes in strategy. It is theorised that cooperative constitutions have significant sections dedicated to ensuring that the member-owner governance of the cooperative is protected.

Furthermore, changes to an entity's constitution may affect different groups of stakeholders in different ways which can impact operational efficiency. For example, there is potential that the operational management of the cooperative will want changes to the constitution which will serve their requirements yet may not serve the requirements of the owner-members. Having an ongoing understanding of the constitutional provisions is critical for members to retain control over the cooperative that they formed. According to Tim Mazzarol (2009), the strengths and weaknesses of the cooperative model lie in the democratic control that the members have over the cooperative. This factor is central to the required member governance within cooperatives.

Much of the research to date regarding cooperative governance has focused on evidence (or the lack thereof) of common governance challenges such as the portfolio problem, the horizon problem, and agency conflict, for example. Few studies have examined the effect that the combination of the allowed constitutional document provisions and the law have on member governance. It is hypothesised that the member-owners of a cooperative rarely make effective use of the constitution to enhance and maintain the core governance principle of member control.

Besides the membership rules which are specific to a particular cooperative, ideally, there should be no need for a document that specifies additional provisions for the governance the owners have over the entity as the cooperative law of the country should be sufficient. In reality, however, there are very few countries whose cooperative law is detailed to the level where most of the governance provisions are provided for. The consequences of not having a cooperative constitutional document can have dire consequences for the cooperative in a particular country. Furthermore, the constitutional document is seen as improving base cooperative law provisions to the benefit of the members. This thesis chapter examines constitutional documents through the members' lens and compares different cooperative

constitutional documents to understand the nature and raison d'etre for a constitutional document.

The first part of this chapter is a comparative analysis of the global statutory, constitutional provisions for cooperatives. This is followed by an in-depth analysis of the constitutional provisions of New Zealand and Australian Dairy cooperatives. An understanding of how effective the allowed law modifications in the constitutional document is central to understanding how members maintain the governance of their cooperative. The second part of this chapter examines the dairy cooperative constitutional document implementation in Australasia. The dataset under consideration includes seven agricultural dairy cooperatives, four from New Zealand and three from Australia. This data is important as it links the cooperative constitutional document provisions via the law to cooperative member governance. Without effective provisions in the law and the cooperative constitutional document, member governance could be compromised.

3.2 Chapter-3 Research Questions and Hypothesis

This chapter examines the role of cooperative the cooperative constitutional document and how these have been implemented for various regions and then specifically for Australasia. This chapter uses the same ten countries for analysis as those used in Chapter-2.

3.2.1 Overarching Research Questions:

Is a cooperative constitutional document necessary, and how important is the constitutional document when considering member governance? How have constitutional documents been applied in Australasia?

3.2.2 Overarching Hypothesis:

The cooperative constitutional document is necessary for member governance. There is a relationship between the number of mandated constitutional provisions in the cooperative law and the hypothetical potential of member governance.

3.2.3 Chapter-3 Research Questions.

The overarching research question is broken down into components as listed below that assist in the analysis of this element of governance. These are proposed as follows where S-RQ_n is the number of the Subordinate Research Question:

S-RQ1: What is the role of the cooperative constitutional document?

S-RQ2: What support can be found for the constitutional document in cooperative laws from a selection of countries?

S-RQ3: What are the relative strengths and weaknesses of dairy cooperative constitutional documents when contrasting their implementation in Australia and New Zealand?

3.3 The Constitutional Provisions of different countries

In this section, we consider the provisions found within the law as it pertains to the constitutional document. Contrasting the different mandated cooperative law provisions for the constitutional document gives an understanding of the next layer of governance. The laws of ten countries are contrasted by establishing which provisions are mandated in the constitutional document. Classifying the mandated provisions according to those that could affect member governance of a cooperative, gains an understanding of the effectiveness of the law and constitutional document. A combination of the first four principles of cooperation from the International Cooperative Alliance (ICA-7), the United States Department of Agriculture three principles (USDA-3), and the Canadian Basis of Cooperation (Canada-8) eight overlapping principles were used. An examination of the cooperative principles that have been adopted, an understanding of the perspective from which the law is gained, including how the constitutional document provisions align with the accepted cooperative principles. It is of note that having more provisions mandated within the law for the constitutional document does not necessarily indicate a more robust governance structure, although having more can indicate a superior level of governance is possible.

Very little has been published on the role of the constitutional document and provisions contained as part of it. A paper published by the Central International Cooperative Alliance (Dutta, R., Kumar, S. 2013) where the authors' state for New Zealand "*The need for a separate By-law does not seem to arise as cooperatives are not registered under a separate cooperative societies Act*". Nevertheless, this research found that all cooperatives in this dataset do have a set of constitutional provisions which approximate to the by-law as mentioned in the text of this paper. Again, for Australia, the authors refer to the repealed cooperative law in New South Wales as the prevailing law, this law has been repealed and replaced by the Cooperative National Laws agreement (CNL) in 2012. No federal law for cooperatives exists at this stage for Australian cooperatives.

An analysis of the mandated constitutional provisions for each country was undertaken in order to understand what effect these can have, if any, on the member governance for a cooperative. The country cooperative law sections that comprise the compulsory

requirements for constitutional documents have categorised into provisions that deal with member governance, membership rules, the regulator, and operations. The provisions that deal with day to day activities of the cooperative were categorised under “Operation/Management”. Regulators may have a requirement in individual countries that could affect the running of the cooperative therefore have a category named “Regulator”. The “Membership Rules” category is the set of rules that form the operational member requirements including entry, exit, share ownership payment and any non-governance type rules. Any constitutional provision that affects member control, member benefit (or economic participation), member ownership, or if there are provisions relating to the information a member is required to receive are classified under the “Member” category. Directors are included under the member category as the Board of Directors can affect member governance of the cooperative.

3.3.1 Methodology (Analysis of Cooperative Law Constitutional Provisions)

The initial focus of this chapter is an analysis of the laws concentrating specifically on the mandated constitutional provisions of the ten countries. A combination of Comparative Legal Analysis (Van Hoecke, 2015), Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013) were performed. The laws were compared using the Comparative Legal Analysis and where it required, Content Analysis. Van Hoecke (2015) stated: *“When one tries to improve one’s own legal system, be it as a legislator or as a scholar; it has become obvious to look at the other side of the borders”*. This chapter compares multiple cooperative laws, and thus, this methodology is appropriate. Ten countries cooperative laws were chosen for the comparative analysis based on their similarity to either the central law of New Zealand or the federal State-based laws of Australia. The cooperative laws of the chosen ten countries were downloaded off the government website of each country. Where required, the laws were translated into English using multiple online translation tools. Figure 3.1 below illustrates the analysis logic-path. Where the meaning of a specific provision was not clear, a combination of Content Analysis and Document Analysis was used to understand the underlying provision.

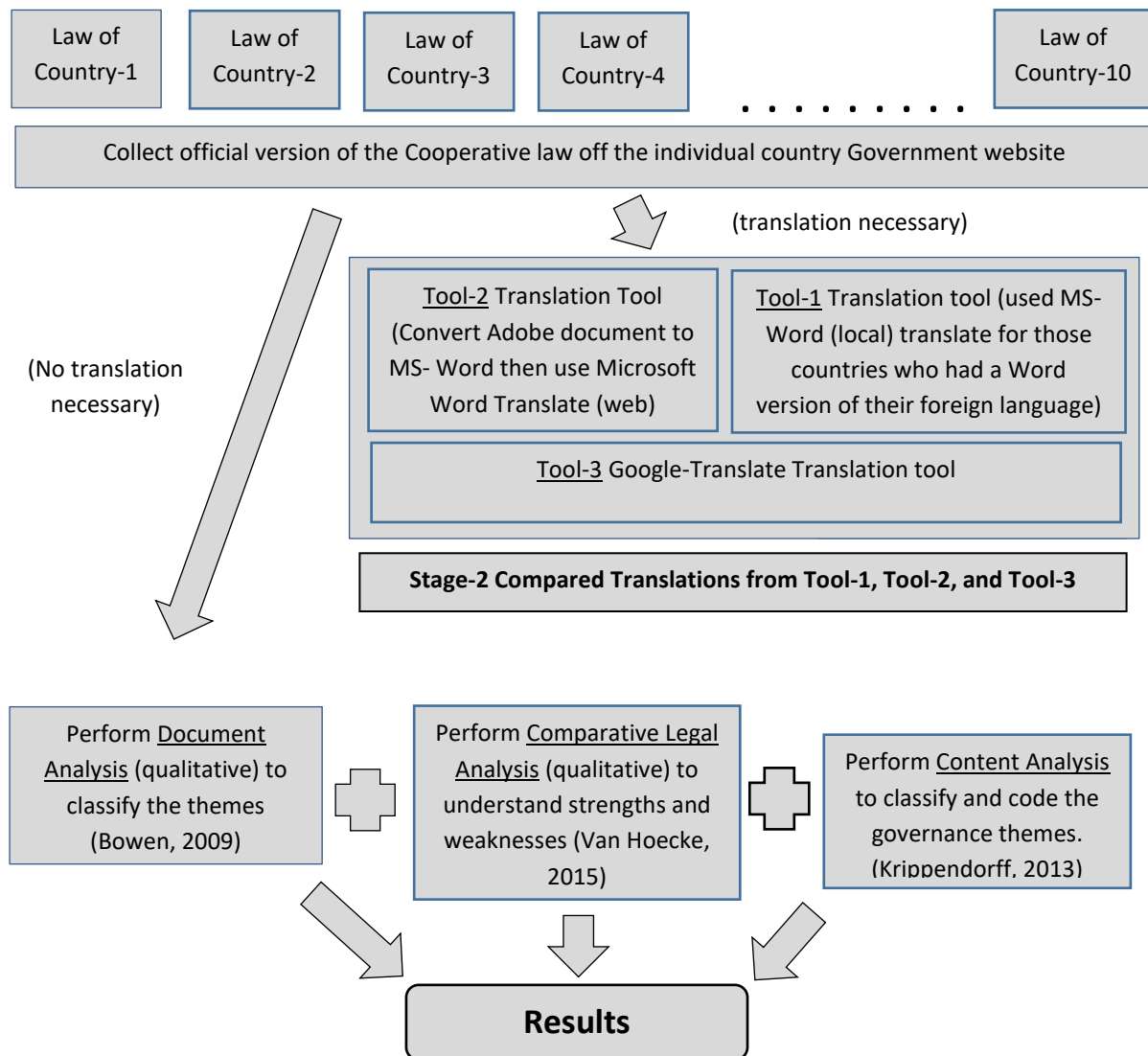


Figure 3. 1 Logic-flow for Classification Method

Eight of the ten countries had laws in English, so no translation was necessary. The laws of France and Germany were translated using the above methods, and comparison on the translations was made to maximise accuracy. Where documents had to be translated (only for Germany and France), the three translation tools were applied, and a comparative analysis was performed looking at the output of the tools. Where there were substantial differences, these were reinputted into the same translation tool and compared against the original language. Content analysis techniques were then employed to understand the meaning of provisions within the law.

Chapter-2 linked the principles of cooperation to the cooperative law finding that there was an overlap of principles between the ICA-7, the USDA-3 and the Canada-8 principles. This chapter uses the overlapped principles as a basis to perform an analysis of the mandatory constitutional provisions. Figure 3.2 below illustrates the coding techniques used to analyse the individual country's law:

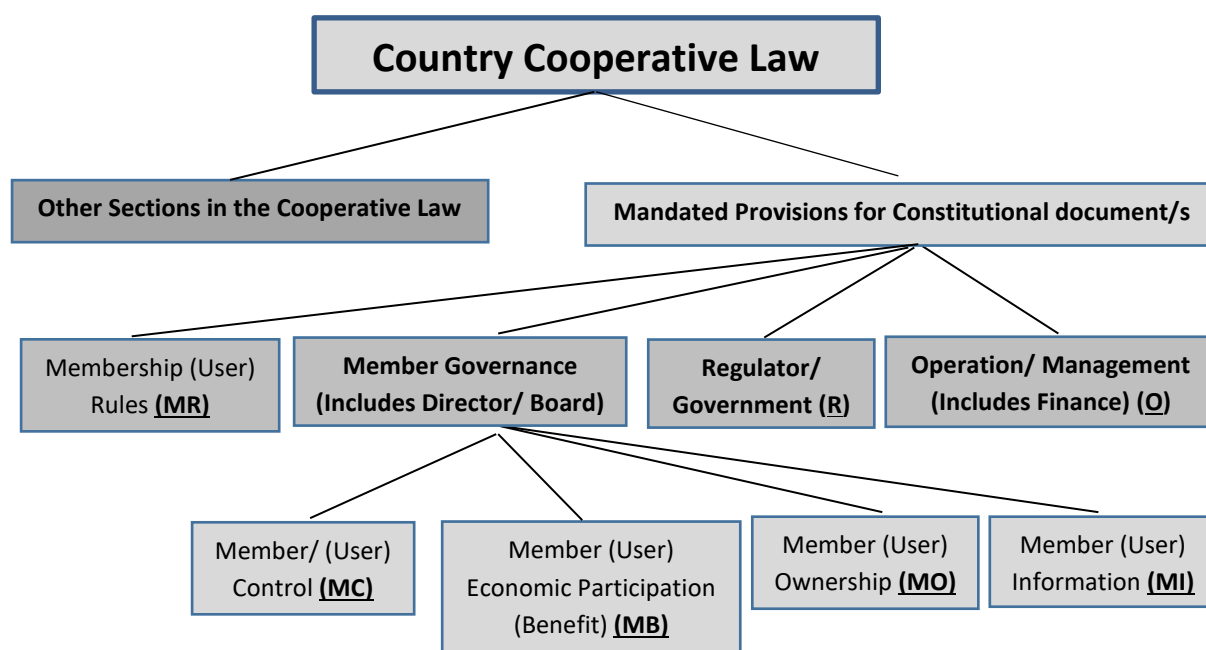


Figure 3. 2 Code Tabulation

Without looking into the governance challenges in this chapter, which is covered in the next chapter (Chapter-4), we can nevertheless separate the stakeholders into discrete groups. The member-stakeholder group is self-explanatory, but it may be pertinent to define the use of this group within this context. Members are those individuals that, in a dairy cooperative, supply milk to the cooperative for processing. Operational management stakeholders are the group of professional managers and staff that run the operational area of the cooperative and take direction from the Board of directors. Regulators are a separate stakeholder group which, in certain countries, require specific mandated reports including the oversight of amendments made to the constitutional document. Others make up the rest of the stakeholders, which are not discussed in this chapter. However, they include suppliers other than members, the community, the government separate to that of the cooperative regulator and other interested parties as defined by Freeman (2007). We then reclassify “Member” into sub-classifications to align with the accepted principles of cooperation (ICA-7, USDA-3,

Canada-8). Referring back to Chapter-2, overlapping principles included *User-owner*, *User-benefit*, and *User-control*. Membership Rules was then added as the majority of the countries analysed mandated constitutional rules for members, for example how to gain admission, how to exit, how to supply, and so forth. Additionally, Member Information was included as a separate category under Member Governance since several of the countries provided for mandatory member information.

3.3.2 Application of the constitutional document within the law

The following table illustrates metrics which are useful in understanding the construct of the law and how the constitutional documents are applied. The laws of ten countries were tabulated using the methodology as described above; the metrics nevertheless rely on interpretation; however, the analysis does provide a clear indication of the governance “strength” of a particular country. The table was constructed using Figure 3.2 and using the approach described in Figure 3.1. The results of the analysis are in Table 3.1 below.

Classification	Aus	Brazil	Canada	EU	France	German	India *	NZ *	South Africa	UK	Tot
Operational	5	2	6	5	2	2			6	6	34
Regulatory	2		1		1		1			1	6
Membership rules	6	1	8	1	2	1			7	2	28
Member Governance	(13)	(9)	(8)	(6)	(8)	(4)			(20)	(7)	75
Member Control	8	4	3	4	6	1	1		14	3	44
Member Benefit/ economic Participation	1	3	1	1	1	1			3	2	13
Member Ownership	2	2	5	1		1			2	2	15
Member Information	2				1	1			1		5
Total Count (mandatory provisions)	26	12	23	12	13	7	2		33	16	142
Percentage of Member Governance vs Total Count	50%	75%	35%	50%	62%	57%	n/a	n/a	61%	44%	53%

*Having a constitutional document is not mandated in the Act/ Law of India and New Zealand

Table 3. 1: Number and Category of Mandated Constitutional Provisions, Analysis by Country

For the full analysis of the ten countries, please refer to Appendix-3.1 “Analysis of 10 Countries Constitutional provisions”. The totals reflect the number of mandatory provisions found within the current law of that country. Examining the percentages is of note that of the eight countries that mandated constitutional provisions within their laws, 53% of the

mandated provisions were dedicated to Member Governance. Brazil had 75% of the 12 mandated constitutional provisions dedicated to member governance while Canada had the least provisions, with only 35% of the 23 provisions dedicated to member governance. Canada has more mandated provisions than any other country devoted to the Operational and Membership Rules categories. It is more useful to note that Brazil had 9 out of the 12 mandated provisions while Canada had 8 out of 23 mandated provisions dedicated to member governance. South Africa had the most mandated constitutional provisions where it had 32 in total with 20 of these dedicated to member governance.

Out of the ten countries, it is interesting to note that India and New Zealand do not mandate constitutional document provisions in their cooperative law. Furthermore, while India mandates that all 'bye-laws' be registered with the Registrar of Cooperatives, and any changes have to be approved by the same, they only publish a list of optional bye-laws and have no mandated provisions. In contrast, New Zealand law is silent on constitutional document provisions both mandated and optional. Additionally, the countries with mandated provisions either dedicate a section, two sections, or a schedule in their cooperative law that describes the required constitutional provisions. Other countries such as Canada, France, Germany, and the UK have a dual approach to constitutional documents using a combination of two documents to require provisions in each document. A summary of each country's approach follows:

Australia adopted a uniform cooperative law (Cooperatives Adoption of National Law Act 2012 No 29, 2012). However, the incorporation of a cooperative is implemented at the State level, not being a federal, centralised law. Additionally, cooperatives can incorporate under the Corporations Legislation rather than the cooperative law as the Corporations legislation is a centralised, federal law and thus has some advantages over its cooperative law counterpart. Furthermore, each state can choose whether or not to adopt, and therefore join, the Cooperative National Law (CNL). For example, as of 2020, Queensland has adopted the uniform law agreement, although the commencement date is unknown as of June 2020 (Cooperatives National Law Bill, 2020). Australia has the second-highest number of mandated provisions in its cooperative law. Additionally, they have the second-highest number of provisions dedicated to member governance as a whole. It is interesting to note that Australia has all three of the core member governance principles in evidence, which includes member-

control (x8), member-benefit (x1), and member-ownership (x2). There are regulatory checks (x2) in place within their constitutional document, which serves as a check against any changes that could contradict the intent of the constitutional document aim. Furthermore, Australia has ensured that members get the information they require by mandating the furnishing of company reports before the general meeting.

Brazil has taken a centralised approach to cooperative law (Brazil Cooperative Law - LEI 5.764/1971 (LEI ORDINÁRIA) 12/16/1971, 1971), requiring cooperatives in any of the federal states to incorporate under the central cooperative law. Brazil has a total of twelve mandated provisions which is the second least number of provisions for the eight countries that mandate constitutional requirements within their cooperative law. All of the member governance mechanisms are in evidence. However, there is no regulatory oversight on amendments made to the constitutional document. Brazil has further mandated a minimum contribution to statutory reserves (Reserve fund, Technical reserve, Educational reserve, and Social assistance reserve) of not less than 15% of the surplus in each accounting year. As an additional member governance mechanism, Brazil has mandated a Supervisory board that has as its primary function of monitoring the management (operation) of the cooperative. Finally, Brazil has mandated that the directors of a cooperative can serve for a maximum of four years without extension.

Canadian federal law has been covered in the analysis (Canada Cooperatives Act, 1998). All Canadian cooperatives that either operate in more than one state or export goods outside Canada have to be incorporated under this act. Canada has taken a dual approach for its constitutional documents, which include the Articles of Association and By-laws. There is an overlap in function between the two documents in that they both cover off operational and administrative activities as well as member governance principles and mechanisms. The “Cooperative Basis” (Canada-8) are contained within the Act requiring all compliance by all cooperatives. The Articles of Incorporation can restrict the powers of the directors and the Board using a mandated provision. The construct of the law is such that all by-laws are member governance-related only. Under Canadian law, the Minister has the power to appoint a director on any cooperative board. Canada has also mandated that two-thirds of the directors have to be member directors and furthermore all directors have a maximum term of 3 years. There is no regulatory oversight on amendments to the constitutional documents.

The European Union (EU) law (Statute for a European Cooperative Society (SCE), 2003) has been constructed similarly to the other federal laws discussed above. As the EU law serves similar to a central government made up of various states, it was included. If a cooperative span more than one EU member country, then they will be incorporated under this cooperative law. There is a provision for a two-tier controlling structure having a supervisory organ and a management organ; this is not mandatory. However, a member may not serve on both of the organs simultaneously, although there is a provision that member states may require the management organ to be appointed by a general meeting rather than the supervisory organ (Board of Directors). The statutes (constitutional document) are broad and allow for interpretation as well as flexibility. The supervisory organ may not represent the cooperative in contract negotiation or litigation; this is the accountability of the management organ. Three-quarters of the supervisory organ have to be members.

Notwithstanding the EU law for all member states, a cooperative will be governed by the law in the member state in which it has its registered office. There is a mandatory requirement for the establishment of a legal reserve fund which needs to at least equal to the subscribed capital of EUR30,000. Until the reserve is reached, not less than 15% of the surplus will be added to the reserve. The EU law allows non-members to be admitted as investor-members, though they may not own more than 25% of the voting rights of the cooperative.

French cooperative law (Law No. 47-1775 (Statute of Cooperation), 1947) has been updated many times since the original law was enacted, this analysis covered off consolidations until July 2018. France has allowed non-members to hold up to 49% of the total voting rights and has limited that non-members benefit by no more than 20% of the cooperative turnover. Board members (directors) are not paid and can only be compensated on expenses as well as time spent on the administration duties. The Mandatory articles (Article-7) are brief and are broad, similar as expected to that of the EU central law (see above). The constitutional provisions include the mandatory allocation to a statutory reserve of not less than 50% of the surplus. There are no member-owner provisions, and member-benefit provisions are limited to the “reserve” mandatory provision. There is a provision (Article 26) to allow for a two-tier structure with the management board acting under the control of the supervisory Board, similar as discussed within the EU section above.

German cooperative law (Law on the Cooperative and Business Cooperatives (Genossenschaftsgesetz – GenG, 1889) has the least number of mandatory provisions when compared to the other nine countries in this analysis. This law was last amended in 2017, which updated some provisions. German law has a system of dual constitutional documents having both a Statute §6 and Articles of Association §7. The statutes include provisions whereby, in the case of cooperative insolvency, the members have limited or unlimited liability. The provisions, as contained in §6 of the law, are broad and are supported by §7 which covers the Articles of Association. The German law further states in §9 that the cooperative must have both management as well as a supervisory board although this is waived for small cooperatives with less than 20 members in which case there will only be a supervisory board.

Indian law (The Multi-State Cooperative Societies Act, Act No. 39 of 2002, 2018) is based on the ICA accepted principles of cooperation (See Schedule-1). It does not mandate what the contents of the by-laws (S10) are within its legislation. Nevertheless, it does require bye-laws to be present (see S5(b)). Additionally, the law mandates other member governance mechanisms within other sections. For example, it does mandate that any changes to the bye-laws must be lodged with the Registrar of Cooperatives for approval and oversight (S11). Furthermore, the law does publish a list of what the bye-laws may contain (S10). Provision (S25) allows for either federal or state governments to sit on the Board of a cooperative despite the ICA “Independence and Autonomy” principle.

Two primary laws govern New Zealand cooperatives, that of the Cooperative Companies Act (1996) and the Companies Act (1993). Furthermore, dairy cooperatives have to register under Part-3 of the Cooperative Companies Act as a Cooperative Dairy company (S34). Dairy cooperatives should moreover understand the provisions contained in the Dairy industry Restructure Act of 2001 (DIRA) and amendments. The Cooperative Companies Act (S7), requires a cooperative to apply for concurrent registration under the Companies Act (S12). When considering S12 (f) of the Companies Act, *“(f) if the proposed company is to have a constitution, accompanied by a document certified by at least one applicant as the company’s constitution”*, having a constitution is optional. However, when examining the Cooperative Companies Act, it mandates the registration of a cooperative dairy company *“A cooperative company, the principal activities of which are, and are stated in its constitution as being, all*

or any of the following...". Likewise, the Act states that suppliers have to be shareholders with S39(3) stating *"The Registrar must not register a cooperative company as a cooperative dairy company under this Part of the Act unless the constitution of the company complies with this section"*. Finally, changes to the constitution under Section 42 of the Act require a vote of not less than 90% of the shareholders entitled to vote unless this number changed in the constitution. This section, in some ways, implies that a constitution is required for New Zealand cooperative companies.

South African law (Cooperatives Act 14 of 2005, 2005) has thirty-three mandated provisions giving South Africa the highest number of mandated constitutional provisions when compared to the other countries in this analysis. Furthermore, South Africa has linked its law to that of the ICA cooperative principles in the definition (S1). Furthermore, the law states how it aligns with the cooperative principles (S3). The mandated provisions within its law encompass all the member governance mechanisms having twenty-seven separate provisions and of those, fourteen provisions for member-control. Moreover, the law caters for member information as well as mandating a Registrar of cooperatives who checks the constitution for compliance on registration as well as checking all amendments are consistent with the cooperative principles as set out in S3.

The United Kingdom cooperatives legislation (Cooperative and Community Benefit Societies Act 2014, 2014) includes community benefit societies as well as cooperative societies. The mandated provisions for the cooperative are broad, and as a result, the law has to cater for both cooperatives and community societies. The Registrar for cooperatives is the Financial Conduct Authority (FCA) which is different from the Company Registrar for the United Kingdom. The mandated provisions for the constitutional document encompass all of the member governance mechanisms, including member control, member benefit, member ownership, and membership rules. The Registrar (FCA) checks the constitutional document for compliance on registration as well as any amendments.

3.3.3 Findings (constitutional provisions of different regions)

Most countries' cooperative law includes a section which makes it a mandatory requirement for the constitutional document to conform to specific provisions. New Zealand and India are exceptions to having mandatory provisions in the constitutional document. The provisions that had the highest number of mandatory provisions for cooperative constitutional documents was for member governance, with 53% of the total number of provisions dedicated to this. Out of the member-governance sub-categories (Member Ownership, Member Benefit, Member Control, and Member information), Member control was found to have the highest number of provisions with 44 out of 75 or 59%. Additionally, it was significant in that out of the total number of governance provisions within a constitutional document; member governance accounted for more than 30% of the total. Out of the ten countries, provisions that encouraged the sharing of cooperative information with members were found to have the least number of provisions with 5 out of a total of 142 provisions, or 3.5%. The countries that had the highest number of member governance provisions (South Africa and Australia) had provisions that mandated information sharing.

Following the significant Member Governance category, the next highest number of provisions was found to be dedicated to the Operational category; this category covered the day-to-day operations of the cooperative business. After Member Information, Member Benefit was found to be the next least mandated provision for constitutional documents, several provisions were found within the Membership Rules that were associated with the Member Benefit category; however, the provisions were more related to the cooperative business stipulating the manner of transacting rather than mandating member benefits.

As above, many of the mandatory provisions for Member Ownership was found to be more aligned to Membership Rules than mandating or enforcing whom ownership was vested in – the members.

3.4 The constitutional documents of New Zealand and Australia dairy cooperatives.

In this section, a case-study approach is taken to analyse each of the constitutional documents of the seven dairy cooperatives from Australasia by examining the provisions for member governance. A new Australian dairy cooperative, Green Pastures, was not included in the dataset as the cooperative was formed recently (in 2018) and was not yet fully operational. The study identifies how many of the constitutional provisions in each cooperative can be linked to the accepted member governance principles of cooperation. By linking the constitutional provisions back to the law and therefore, the principles prove a clear path from cooperative principles to cooperative law to the adoption of cooperative constitutional provisions.

3.4.1 Methodology

An analysis of the constitutional provisions of each cooperative in this study was undertaken, in the context of the cooperative law of their home country. Australia has mandated provisions for its constitutional document (Rules) within its cooperative law. However, New Zealand cooperative law implies that a constitutional document (constitution) exists, although it has no mandated provisions. The constitutional documents for Australia were obtained directly from the cooperatives websites and confirmed with cooperatives that the Rules version is current. For the New Zealand cooperatives, each constitutional document was downloaded directly off the Companies Website (Companies Office, 2018) as it is a regulated requirement for companies (and cooperatives) to register their constitutions with the Companies Office. The constitutional document formed the primary data source for the analysis. A combination of Comparative Legal Analysis for the constitutional provisions found within each law, Document Analysis for the constitutional document itself to construct a table and confirm the major classifications, and Content Analysis for the coding of the constitutional provisions and assigning these to each major classification, an analysis of each cooperative was performed. The linking back of these to standard member governance mechanisms was examined, similar to the first section where the laws were analysed. Finally, a comparative table contrasting the provisions from each of the Australian and New Zealand

cooperative constitutions was produced. The following diagram, Figure 3.3, presents the stages of analysis.

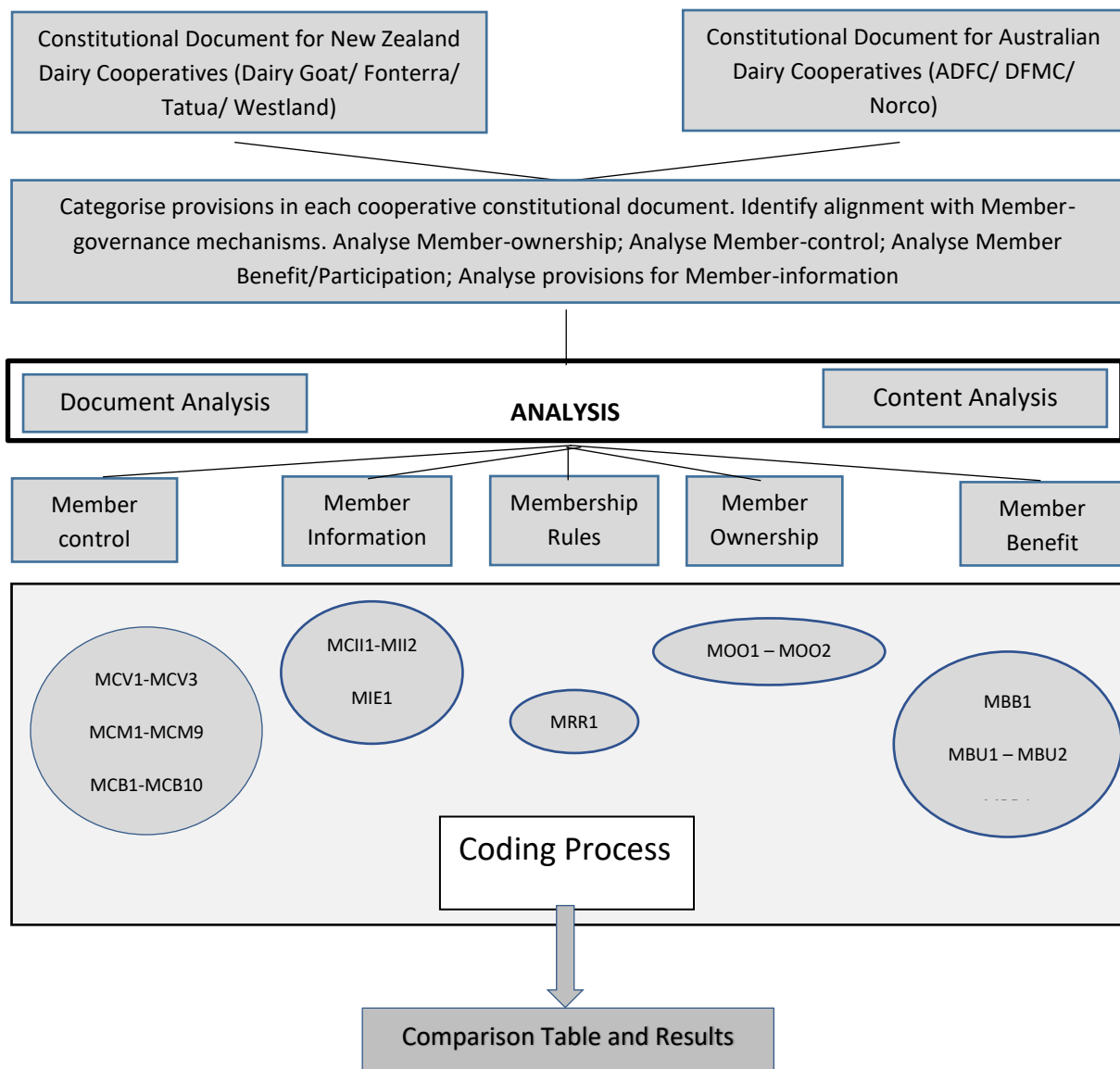


Figure 3. 3 Australasian Constitutional Document Analysis Logic-flow

Earlier in the chapter, common themes were found when analysing the respective cooperative laws for mandatory constructional provisions, these were found to be Member Ownership, Member Benefit, Membership Rules, Member Information, and Member Control. Under Member Control the analysis was further analysed resulting in three distinct sub-categories which included the control Member Control over Voting (MCV), Member Control over Member Meetings (MCM), and Member Control over the Board of Directors (MCB). We found when performing the first-stage document analysis of the constitutions for each of the

seven cooperatives that the themes found were consistent with what was found in each constitutional document. The data within each constitutional document was broken down regarding provisions that applied to each of the major themes. Additionally, during the analysis and coding phase, we found that there were consistent common sub-themes across the cooperatives within the study. Appendix-B documents the full coding schema that was created to perform the content analysis of each of the cooperative constitutional documents.

3.4.2 Australian Dairy Cooperatives Overview

There are three established Australian dairy cooperatives which are ADFC, DFMC, and Norco. Two of them, NORCO and ADFC, are incorporated under the new cooperatives law (Cooperatives (Adoption of National Law) Act 2012 No 29, 2012) with ADFC un-incorporating itself as a cooperative and re-incorporating under the centralised federal Corporations Law in 2016. Although ADFC incorporated under the Federal Corporations legislation, it remains wholly member-owned and member-controlled, a cooperative in all but name. As a result, ADFC has been included in the analysis. Furthermore, ADFC retained the cooperative constitutional document that it had before 2016, which was when it was incorporated under the Victorian cooperatives law. An evaluation of the annual reports was undertaken to tabulate some important metrics as a comparative tool as well to gain an understanding of the scale of operations. Table 3.2 highlights some key financial and other comparative metrics for the Australian dairy cooperatives.

Constitutional document provision	ADFC *(ADFC, 2017)	DFMC *(DFMC, 2017)	Norco *(NORCO, 2017)
No of supplier shareholders	73 (Page, 2018)	350 ("About Us - DFMC", 2018)	*215
Revenue	*AU\$55.7m	*AU\$132m	*AU\$555.625m
Milk collected	*125m litres (pg4)	*269m litres (pg4)	*221.8m litres (pg16)
Payment for milk	*AU\$54.350m (Assumed cost of material = payment made to suppliers for milk)	AU\$130.3m	*AU\$132.945m (Pg39)
Milk price equivalent per litre (average)	*AU\$0.437 per litre average (calculated)	*AU\$0.5225 per litre (average)	*AU\$0.5742 per litre (average)
Length of time operated Year of formation	6 years 2012	118 years 1900	123 years 1895

*denotes information found in Annual Report for each cooperative

Table 3. 2: Comparative Table for Australian Dairy Cooperatives

Two of the three Australian dairy cooperatives perform milk collection only, both ADFC and DFMC sell all the milk to the respective partner companies on a contract basis. Norco processes the milk into several products, including milk for the retail market and second stage manufactured dairy products and ingredients.

3.4.3 Australia Dairy Cooperatives Findings

ADFC re-incorporated itself under the Australian federal Corporations legislation after removing itself from the Victorian Cooperative law (Cooperatives (Adoption of National Law) Act 2012 No 29, 2012). As found in Chapter-2 (“Cooperative Law”), there is evidence that suggests that it could be more beneficial for a cooperative to be incorporated under the federal Corporations law rather than under the state-based cooperative law. This re-incorporation supports the findings in Chapter-2 that there is not a level playing field between the two laws in Australia.

DFMC, which incorporated itself under the cooperative law of New South Wales, updated its constitutional document multiple times containing references to the repealed Cooperative Law of 1992, suggesting that either the Registrar is not functioning as it was intended or that DFMC did not comply with the requirements of Registrar signoff. The Registrar is accountable to register the new rules and additionally for vetting that the rules conform to the law. This example suggests that either the Registrar performs an administrative function only or that the constitutional document of DFMC was not sent, as required by the law, to the Registrar for approval. Furthermore, the fact that DFMC refers to repealed legislation in its constitutional document implies that the Board, the company secretary, and the members are not regularly reviewing this critical document.

Some provisions in the NORCO constitutional document could be seen as anti-competitive in that a provision exists that allows the cooperative to force members to buy products and services from one of the cooperative businesses. The Registrar should have found these provisions when they examined the constitution. Furthermore, NORCO can force members to provide loans to the cooperative entity which would be seen as unsecured loans, although this would require a special resolution by its members. What is more, on analysis, it was found

that the constitutional document contains a number of both material and non-material errors which may indicate the level of importance that the cooperative entity places on this important document.

3.4.4 New Zealand Dairy Cooperatives Overview

As of January 2019, there were 4 New Zealand dairy cooperatives: Dairy Goat Milk Cooperative; Fonterra; Tatua; and Westland. All of the New Zealand dairy cooperatives have been registered under the Companies Act 1993, the Cooperative Companies Act 1996 and as Dairy cooperatives. Fonterra was formed by way of legislation, namely the Dairy Industry Restructure Act 2001 (DIRA) which consolidated New Zealand Dairy Group, Kiwi Cooperative Dairies, and the government-controlled Dairy Board (“NZ Dairy Timeline”, 2018). The Dairy Board, together with the cooperatives mentioned above, could be described as an ill-defined joint venture or public-private partnership. An evaluation of the annual reports from each of the cooperatives was performed to tabulate some fundamental metrics as a comparative tool as well as understanding the scale of operations. Table 3.3 highlights comparative key metrics for the New Zealand cooperatives.

Constitutional document provision	Dairy Goat *Annual Report 2017 (Companies Office, 2018)	Fonterra * (Fonterra, 2017)	Tatua *(Tatua, 2017)	Westland *(Westland, 2017)
No of supplier shareholders	72 ("Dairy Goat Cooperative", 2018)	*10,267	*113 (pg42)	*429
Revenue	*\$188m (2016: \$177.593m)	*\$19,232m	*\$328m	*\$630m
Milk collected	45m litres (2016) (Scholtens, Lopez-Lozano & Smith, 2017)	*17,051m litres	167m litres	*699m litres (pg20)
Payment for Milk	*\$105.568m	*\$9,471m (pg14)	*\$106.241m	*338.691m (pg25)
Milk price equivalent per litre (average)	\$2.3460 per litre (calculated)	\$0.5556 per litre (calculated)	\$0.6362 per litre (calculated)	\$0.4845 per litre (calculated)
Farm Gate price (\$ per kg milk solids)	*\$18.50/ kgs MS	*\$6.12/ kgs MS	*\$7.10/ kgs MS (pg42)	*\$5.18/ kgs MS (pg20)
Length of time operated Year of formation	44 years 1984	18 years 2001	104 years 1914	81years 1937

*denotes information found in Annual Report for each cooperative

Table 3. 3: Comparative Table for New Zealand Dairy Cooperatives

The New Zealand dairy cooperatives all perform the end-to-end functions of milk collection, manufacturing, the creation of speciality ingredients, and marketing and the sale of the products. Additionally, Fonterra setup a dairy commodity trading platform called Global Dairy Trade (“GlobalDairyTrade”, 2018). Although it is operated independently from Fonterra Cooperative Group, it is nevertheless a wholly owned subsidiary of Fonterra. In the next part, we analyse each of the cooperatives separately examining each of the constitutional documents. New Zealand does not have a separate Registrar for cooperatives companies; all companies, including cooperatives, register their required documents with the Companies Registrar.

3.4.5 New Zealand Dairy Cooperative Findings

The DGC constitution was changed in 2013 annual meeting but was only amended to reflect the changes in 2016 where it was uploaded under the 2015 date. This could indicate that the constitutional document may not be seen as important to the directors and that members perhaps do not reference this document regularly. Additionally, the change increased the number of non-member directors which could negatively impact member control. DGC (as with some of the other cooperatives in this study) restricts the availability of information to non-directors (including members) which does increase the risk of asymmetrical information. This provision refers back to the Companies Act 1993 S24 “secrecy of information”. This section should be reconsidered or agreed that it can be overwritten by the Cooperative Companies Act of 1996, although the Act does not bar the constitutional document from overwriting or modifying this section.

When analysing the Fonterra constitutional document provisions, it was observed that under the Qualification of Directors rule that a person who was a shareholder of an entity that was a supplying shareholder in Fonterra could be elected as a member director. A check on the seven farmer directors in the 2017 annual report showed that three were possibly working farmers, the others consisted of a member director who was a full-time lecturer and the other two owned interests in a supplying shareholder but did not farm themselves. This qualification could weaken member control by electing member directors who are not full-time, supplying farmer shareholders. The voting on postal ballots in Fonterra can skew the voting rights in favour of larger shareholders as the votes allocated are in direct proportion

to the number of Milk Shares a supplying shareholder owns, which is based on milk supply quantity.

In the constitutional document of Tatua, the director quorum is five directors; however, there is no requirement for member directors to make up the majority. Examining the 2018 director make-up on the Tatua website (“Tatua”, 2018), there are seven directors which include three appointed directors. This can result in non-members having more say than members. Similarly, with Tatua, some member-directors would not pass other countries’ director tests as they would not qualify as suppliers.

In the constitutional document for Westland the provision that covers the number of member directors’ states that there will be five member-directors yet the 2017 annual report (Westland, 2017) states that 6-member directors were employed indicating that the number of member directors has changed without updating the constitutional document.

3.5 Discussion of Comparative Findings

Both New Zealand and Australia cooperatives within this study of the dairy cooperatives in New Zealand and Australia had differing laws, noting that New Zealand does not mandate the creation of a constitution within its Companies Act (1993). However, constitutional documents were present for each dairy cooperative in this study with many similar provisions. Certain aspects of Australian cooperative member governance were found to be more developed than that of New Zealand member governance. The areas that Australian members had more advanced provisions over the New Zealand cooperative members were in the categories of Member Benefits, Member Information, and Member Control. Analysing the sub-categories of Member Control, Australian Members constitutional provisions were superior to that of their New Zealand counterparts in the sub-categories of Member Voting, and Board composition and procedure. Table 3.4 below displays the categories with the respective scores, for the detailed score, please refer to Appendix-3.3 attached hereto.

Item	NZD	NZF	NZT	NZW	NZ Ave	AUA	AUD	AUN	Aus Ave
Member Ownership Totals	1	1	1	1	1	1	1	1	1
Member Benefit Totals	2	2	2	2	2	3	4	4	3.67
Membership Rules Totals	1	1	1	1	1	1	1	1	1
Member Information Totals	1	2	1	1	1.25	2	4	3	3
Member Control	21	17	19	20	19.25	29	25	26	26.67
Member Vote Totals	8	4	3	4	4.75	8	9	9	8.67
Member Meetings Totals	8	8	11	10	9.25	12	10	9	10.33
Directors and Board Totals	5	5	5	6	5.25	9	6	8	7.67
TOTALS	26	23	24	25	24.5	36	35	36	35.67

Key New Zealand: NZD = Dairy Goat; NZF = Fonterra; NZT = Tatua; NZW = Westland

Key Australia: AUA = ADFC; AUD = DFMC; AUN = NORCO

Table 3. 4: Results from Content Analysis Phase

As can be concluded from Table 3.4 above, the members in Australia had a distinct advantage in specific areas of member governance that their New Zealand cooperative members did not have. Please refer to Appendix 3.2 and Appendix 3.3 for the detailed analysis of how the numbers were reached. The implications of this finding are that Australia, through the adoption of ILO Recommendation 193 modernised their law and thereby allowed members greater control to the members. In contrast, New Zealand law was not modernised as a result of the ILO recommendation, and as Chapter-2 found DIRA has perhaps obstructed the natural evolution and development of contemporary cooperative law, this may be to the detriment of cooperative members however this statement will be more fully analysed in Chapter-4 where the thesis examines cooperative governance problems. Common to both countries was the Membership Rules category where although the specific provisions differed marginally, overall the provisions only differed in the expected characteristics of the active member provisions which included how a cooperative member joined, how the member left, how the member transacted with the cooperative, and how member shares were treated. Furthermore, no provisions from this category were found that, on analysis of the seven (DGC Fonterra, Tatua, Westland, ADFC, DFMC, Norco) cooperatives in this study, affected member governance materially.

There were common provisions that were observed in each constitutional document, besides the Membership Rules category already discussed above. For example, one-member-one-vote was common to all Australian cooperatives, so too was the fact that a surplus from

operations would be dealt with in proportion to the patronage of the members. Again, the voting of member-directors was common as well as the method of voting in a member general meeting with the show of hands. All cooperatives used a simple member majority for voting on resolutions. Finally, of the Board of directors, none were limited by provisions in any of the cooperative constitutional documents.

A cooperative member benefits through the services provided by the cooperative, in the case of a dairy cooperative the primary benefit is the collection and processing of the Milk into various products and the marketing of these products. However, the Member-Benefit category (mentioned above) analysis looked at the constitutional provisions for dealing with the surpluses, oversight of the debt and leverage of the cooperative, examining the dividend structure, and whether there was a dispute provision within the constitutional document. As already mentioned, the provisions that surplus would be dealt with has already been discussed above. However, on examination of the debt and leverage provisions, it was found that the oversight on these critical aspects of a cooperative by the members was only found in the Australian cooperatives through information requirements (ADFC Constitution, 2015; DFMC Constitution, 2017; Norco Constitution, 2017). In contrast, the New Zealand cooperatives (DGC Constitution, 2019; Fonterra Constitution, 2016; Tatua Constitution, 2015; Westland Constitution, 2017) had no provisions in this regard. This finding is significant as access to information does allow for an open and transparent operation which would be to the members' advantage. Dividends are also an important indicator of Member Benefit and Member Control in keeping the correct balance between internal member-owners and external investors. The reality of the dairy cooperatives in this study was that the larger cooperatives were more likely to carry out an external capital raising to expand their operation, while the smaller cooperatives could raise capital almost exclusively from their members. The balance between the external parties and the members has been the topic of much research; it is not covered in this Chapter but is discussed in the next chapter, Chapter-4. However, if there is tension between the internal member and external investor groups, it is clear that this is to the detriment of members and increases the complexity of the surplus division between the two groups. Australian cooperatives allow for a dispute or grievance process, except for ADFC (ADFC Constitution, 2015) which is incorporated under the federal Corporations Law. When examining the New Zealand cooperatives, Fonterra had a dispute or

grievance procedure that would deal with any member issues in this regard. Fonterra allows the dispute or grievance process to cover both the situation between members and the cooperative or between members and other members. The documenting of a provision in the constitutional document that supports member access to a dispute and grievance procedure is vital to member control and allows for an open and transparent operation.

Asymmetrical information is examined in more detail in the next Chapter, Chapter-4. However, provisions were found in the constitutional documents of seven cooperatives that mandated member access to statutory information which included annual reports and member meeting minutes. Provisions for members to examine more than the statutory requirements were found in the Australian cooperatives, including allowing members to examine all registers of the cooperative (ADFC Constitution, 2015; DFMC Constitution, 2017; Norco Constitution, 2017). This access included the right to examine the Interests Register where directors have to enter any personal interests; but also the interest that the cooperative had in other entities as well as the register of securities to and by the cooperative. Information access is essential as members can obtain a full picture of the debt and leverage as this can impact their Member Benefit for both the payment for their products and the year-end surplus distribution. An analysis of Member Engagement found that some cooperatives set up member-based committees tasked with supporting the directors with the supervision of the cooperative, these committees included members that did not sit on the Board of Directors (DFMC Constitution, 2017; Norco Constitution, 2017; Tatua Constitution, 2015). Fonterra has a membership committee (Fonterra Constitution, 2016), and two of the three Australian cooperatives had the same (DFMC Constitution, 2017; Norco Constitution, 2017). The majority of the cooperatives in this study had supervisory committees in addition to the ones mentioned; these were tasked with aspects of governance which, as they were external to all directors, reduced the governance workload on the Board as a whole.

As discussed in the Methodology section above, the Member Control category was by far the category that had the most significant number of provisions that could affect Member Governance, this was expected and found within in all the constitutional documents. It was found that there were three major distinct sub-categories for Member Control which included Member Control over Voting (MCV), Member Control over Member Meetings (MCM), and Member Control over the Board of Directors (MCB). It is clear that these sub-categories

cannot be separated as they all have overlapping responsibilities and relationships with each other.

In order to maintain control of the cooperative, members must have the right to vote for all directors, not only the member directors. As the appointed, or independent, directors can guide the cooperative in ways that are not always in the members best interests; members have got to have voting rights for these directors as well. The analysis found that all the Australian cooperative members had rights to vote for non-member directors. In one of these cooperatives, non-member directors were appointed by the Board; however, the appointment was required to be ratified at the next general meeting by the members. Common to all cooperatives was the requirement that members voted for the member-directors. The procedure differed negligibly. The rules around appointing directors were similar in the constitutional document provisions. Again, all cooperatives voted using a show of hands with each member having one vote. However, polls are treated differently between New Zealand and Australia cooperatives in this study. Australian cooperatives allow only one vote per member on polls in addition to the show of hands while the New Zealand dairy cooperatives are aligned more to milk-shares by allowing multiple votes dependant on how many shares the member had (DGC Constitution, 2019; Fonterra Constitution, 2016; Tatua Constitution, 2015; Westland Constitution, 2017). Fonterra (Fonterra Constitution, 2016) had no upper limit, and the votes a member has is in direct proportion to the number of milk shares he/she has. The other two New Zealand cooperatives have upper limits (DGC Constitution, 2019; Fonterra Constitution, 2016; Tatua Constitution, 2015; Westland Constitution, 2017), one being a maximum of 5 votes and the other a maximum of 10 votes per member. The central tenet of cooperatives is member democratic control, the allowing of multiple votes skews the votes in favour of larger members, who could be separate independent corporations. Supporting this finding was the provision in all cooperatives constitutional documents that voting was not attached to shareholding with the exclusion of one New Zealand Dairy cooperative, Fonterra.

Member meetings are essential to exercise member democratic control over the cooperative. The Board calls general meetings so sufficient notice should be provided to members of the place, time, and date of the meeting in order to preserve the member control over the cooperative. The analysis on the constitutional provisions as regards the notice of general

meetings found, except for two Australian cooperatives, the cooperatives in this study all had provisions that set the notice period of 2 weeks or ten working days. One of the exceptions allowed for 21 days, and the other allowed for an informal notice of 90 days. As cooperative members can be geographically spread across regions in both New Zealand and Australia, an analysis of the provisions that allowed for attendance other than in person was undertaken. Only three of the seven cooperatives had provisions that supported the electronic attendance of members via an audio and video link (Fonterra Constitution, 2016; Westland Constitution, 2017; DFMC Constitution, 2017). Flexibility in allowing members to attend general meetings via other means would encourage members to attend meetings and vote on resolutions. Member engagement is not covered yet in this chapter, but it is sufficient to state that more member engagement could support a healthy cooperative (Mazzarol et al., 2012; Hendrikse & Veerman, 2003). Common again to all cooperatives in this study was that a simple majority of members passed an ordinary resolution. Special resolutions differed between the two regions cooperatives with two Australian cooperatives having provisions in their constitutional documents that set the majority at 66% of members (DFMC Constitution, 2015; Norco Constitution, 2014); the last Australian cooperative is incorporated under the Corporations Legislation (ADFC Constitution, 2015) which mandated a 75% majority (Corporations Act 2001, 2001). New Zealand cooperatives relied on the Companies Act of 1993 to leave the minimum majority of a special resolution to be passed if 75% of the members voted for it, no New Zealand cooperatives constitutions modified the percentage. Member quorum percentages for the cooperatives in this research ranged from 0.47% for the lowest, to 16% for the highest quorum percentage. Having a low quorum can place pressure on the democratic process in that resolutions could be passed without sufficient members supporting the resolution. The calling of special meetings is a tool that the member can employ to force a Special General Meeting, this right to call a special meeting is essential if a group of members do not believe the cooperative, including the Board, is acting in the best interests of the members as a whole. The analysis found that all the cooperatives had constitutional provisions in this regard. However, one cooperative from each New Zealand and Australia had higher member numbers or milk-share requirements to be able to call a special meeting. The General Meeting of members is a statutory annual event requiring the Board to provide the members with the chance to elect directors, cooperative annual financial position, an update on operations, and how a surplus, if any, will be distributed. The timing

of this meeting to maximise attendance requires both flexibility and adequate notice. It was found that all the cooperatives had constitutional provisions that called the Annual General Meeting within the peak-three months of the member's milk production operations. Convening this meeting at the busiest time of the year for the members would possibly result in low attendance and engagement. Except for a single New Zealand cooperative in this study (Fonterra Constitution, 2016), changes to the constitutional document are only allowed by a special resolution majority of the members. The single New Zealand cooperative (Fonterra) that did not have provision for changing the constitutional document had a provision delegating this to its Shareholder Council which alone could make changes to this critical document. Having Government support while not eroding the autonomy and independence of cooperatives is imperative for the cooperative entity. Australia has a dedicated Registrar of cooperatives that are tasked with vetting any constitutional document changes; this supports member governance ensuring changes to the constitutional document is linked back to a special resolution passed by the required majority of members.

Directors and the Board are critical ingredients of member governance maintenance (Carr et al., 2008; Gijssels et al., 2009; Birchall & Simmons, 2003). While all cooperatives in both New Zealand and Australia voted for member directors, albeit with slightly different rules, an analysis was undertaken of what constitutional provisions provided for a member-director majority, or not. The analysis found that in New Zealand, the definition of a member director was weaker than that of Australia allowing persons "*who had an interest in a supply*" to become member directors while Australia the member director had to be an active supplier. Furthermore, three of the four Boards of the New Zealand cooperatives could have a majority of appointed, or non-member, directors attending a board meeting. The Australian cooperative laws (which includes all the various state-based legislation) mandates a requirement to have a majority of member directors on the board as well as the quorum for a board of director vote. New Zealand, on the other hand, did not specify a member-director based majority in their Cooperative Companies Act 1996 and left the board makeup to the cooperatives themselves to manage. The effect of this omission is that independent, or appointed, directors could outnumber the member directors and thus take decisions that are not in the members best interests, therefore weakening member control in that cooperative.

All cooperative boards in this research were given unlimited powers to manage the cooperative business.

Notwithstanding the constitutional provisions, members with limited information could find themselves in a situation where directors were making decisions that affected the member's interests without any oversight. Furthermore, the notice period to call a directors meeting was found to be, on average, just two days. All the cooperative boards except for one New Zealand, catered for electronic meetings within their constitutional document, thereby making it easier for directors to attend when not close to the place of the meeting. Moreover, it was found that the norm was that a single director could call a director's meeting except one New Zealand and one Australian cooperative. Directors' terms were all limited to either 3- or 4-years although only one cooperative in Australia had specified a maximum number of years to serve as a director in their constitutional document. Director-quorums were examined to ensure that a quorum protected the member's interests. However, it was found that out of the seven cooperatives in this study, the majority had not specified the make-up of the director quorum. The quorum is significant as a meeting called by a single director with little notice could result in the situation where not all directors attend the meeting resulting in board resolutions being passed without a member director majority or even in the worst-case, any member involvement.

3.6 Chapter-3 Conclusion

Constitutional documents are an allowed method of tailoring the law to suit the cooperative entity. This document serves its members by allowing the modifying of the provisions in the law and by the creation of rules for the cooperative to maintain good member governance.

In many regions, there are mandatory requirements for cooperative constitutional documents. Even those countries that have not mandated a constitutional document such as New Zealand, the evidence in this study reveals that cooperatives have published a constitutional document regardless. The conclusion can, therefore, be reached that all cooperatives require a constitutional document, and the law should mandate minimum provisions that support the creation of the member governance document.

In this chapter, those countries with more mandated provisions in the law resulted in more member governance provisions in their constitutional document. Certainly, in the case of Australasia, more provisions can be equated to more governance potential for members, we can conclude that having more mandated constitutional provisions within the cooperative law of a country can lead to more options for effective member governance.

In the case of New Zealand, certain provisions were found to weaken member governance, in particular, poll provisions that gave votes in proportion to milk produced rather than a show of hands where each member present has just one vote. Additionally, on analysing the quorum required for member meetings, it was found that the numbers were unexpectedly low when compared to the minimum default requirement in the law of 50% for a cooperative without a constitutional document. The quorum ranged from less than 0.5% to 16% of member numbers using 2017-member statistics.

Furthermore, it was found all cooperatives in this study scheduled their Annual General Meeting (AGM) within a month of the peak milk season. The scheduling of one voting meeting per year in the busiest time of the year for members to have their say can lead to long timeframes where the cooperative may be forced to make decisions on behalf of the cooperative without the necessary member input. Furthermore, together with the AGM meeting schedule and the low quorum requirements, member engagement in the cooperative could be negatively impacted.

New Generation Cooperatives (as in New Zealand) have weakened the *Democratic member control* as part of their structure as voting rights are determined by milk shares rather than membership. It is unclear whether this is an efficient system, and the issue is addressed further in Chapter-5, which examines member-perception of governance.

New Zealand cooperatives are incorporated under the Cooperative Companies Act 1996 being a subordinate Act to the Companies Act 1993. A provision exists that restricts information to shareholders (S24 Companies Act “secrecy of information”). The requirement for access to information for cooperatives members differs from the information required for shareholders of IOFs. When comparing New Zealand to Australia, it was found that the Australian cooperative constitutions had all increased the requirement for information that members could access supported by the cooperative law. It is therefore concluded that New Zealand law is less effective when supporting open and transparent information access as a result of restricting member access to information which is vital for good member governance.

Again, when analysing the New Zealand director qualifications, we found that a person can be classified as a member director if they own an interest in an entity that is a supplying shareholder. This indicates that it is possible that member directors are no more than equity shareholders, and it is possible that they do not understand dairy farm operation. The weakening of the qualifications for a director could result in a New Zealand cooperative having a Board of Directors that are not farmers which could result in decisions being made at the board level that could negatively impact member governance.

We conclude from the New Zealand information access restrictions and qualifications for a director that undue emphasis has been placed on the Companies Act 1993 rather than understanding the nature of a cooperative which is formed and owned by its members. Although the Act does not bar the constitutional document from overwriting or modifying this section, these sections should be reconsidered or explicitly allowed to be overwritten by the Cooperative Companies Act of 1996,

Australian law as regards the mandated constitutional document is more advanced than many of the other regions as can be seen from the analysis. However, when analysing the constitutional document of the dairy cooperatives, it was found that there were technical

issues within some of them. For example, in one cooperative by referring to a repealed law places both the cooperative members and the cooperative business in unnecessary risk. Additionally, the creation of a Registrar of cooperatives should remove the risk of non-compliance with the cooperative law. Nevertheless, it was evident that the constitutional documents were either published without Registrar approval or that the Registrar performed administrative functions only without ensuring compliance of the provisions with the law. It can, therefore, be concluded that the function of the Australian Registrar of cooperatives is possibly misunderstood and could be more made effective by educating cooperative members and their cooperative business operations.

Finally, the findings support the conclusion that the constitutional document is an under-utilised tool for member governance as the emphasis in many cooperative constitutional documents is on the operational aspects and rules that members have to adhere to rather than supporting good member governance. The constitutional document, when effectively employed, has the power to enhance member governance of the cooperative.

Understanding the implementation of the cooperative principles and the law, together with the constitutional document, should negate many of the governance challenges that cooperatives face. Further research is required to examine the mitigating effect that the Cooperative Principles and Cooperative Law (covered in Chapter-2), and the Constitutional document (this chapter) has on the unique governance challenges that cooperatives face.

4. Chapter 4: Cooperative Governance Challenges

An Inspection of Mitigation through the Layers of Governance

4.1 Chapter-4 Introduction

Hansmann (1999) stated that shareholders of IOF entities could be compared to cooperative members in that both have input to the central entity where the investors' input is capital and the cooperative member's input could be milk in the case of a dairy cooperative. However, the reason for the formation of the cooperative in the first place may have more to do with the structure it adopts than Hansmann takes into his account. Zeuli and Cropp (2007) mention reasons why cooperatives form, which include market failure, excess supply, new market opportunity, economic crisis, disrupting technology, farm organisation collaboration, and favourable cooperative policy. Of particular interest is the agricultural cooperative, which exists to manufacture products from perishable goods. This is not to say that an IOF could not perform the same function in the market, but the raising of the capital for the building of a manufacturing facility is more likely to be successful when committed parties provide equity. For instance, several farmers using their equity in land and livestock as collateral for a loan would be more likely to succeed when compared to an IOF trying to raise capital from financial institutions where the firm does not hold the equity. The advantage to farmers is they collectively control the price mechanism while an IOF would attempt to drive the input costs to the minimum.

Oxford Dictionaries (Oxford Dictionary, 2020) defines residual as the “*Remaining after the greater part or quantity has gone*”. In this thesis, we use the word as described in the definition, meaning that after the process of mitigating the governance problem, what remains of a particular problem is the residue or the remaining *residual* problem. This chapter considers residual risks and challenges that cooperatives face when using a combination of principle, policy, and other governance practices to minimise the adverse effects identified by existing economic theories. In order to understand how cooperatives are affected, an examination of the Theory of the Firm is undertaken, followed by the more general economic theories. A study of the various problem mitigating tools at a cooperative's disposal is undertaken to understand what residual problems remain after the application of the various policy instruments. The array of mitigating tools includes the principles of cooperation, the

policy aspect of cooperative and other law, the constitutional document, and other governance tools which include industry bodies. It is hypothesised that evidence pertaining to the corporate governance theories would be found within cooperatives inferring that the governance difficulties faced by cooperatives are similar to those faced by corporate firms. It is further hypothesised that the combination of the problems that corporate entities and the unique additional problems of the cooperative entity are partially mitigated by principles, policy, and the constitutional document. When countries create legislation, it would be beneficial if the law minimised governance issues and, in that way, afforded more oversight to stakeholders and especially owners. In the case of cooperatives, the principles are used as a basis to create the law governing cooperatives in a particular country; it is suggested that the law should mitigate, to a substantial extent, the governance problems that cooperatives face. The remaining governance problems could be addressed by a well written constitutional document. Hence this analysis of the principles, the law, and the constitutional document to identify ways to minimise the governance issues of a cooperative.

Figure 4.1 below depicts a hierarchy of theories resulting in partial mitigation by the use of various governance structures and tools.

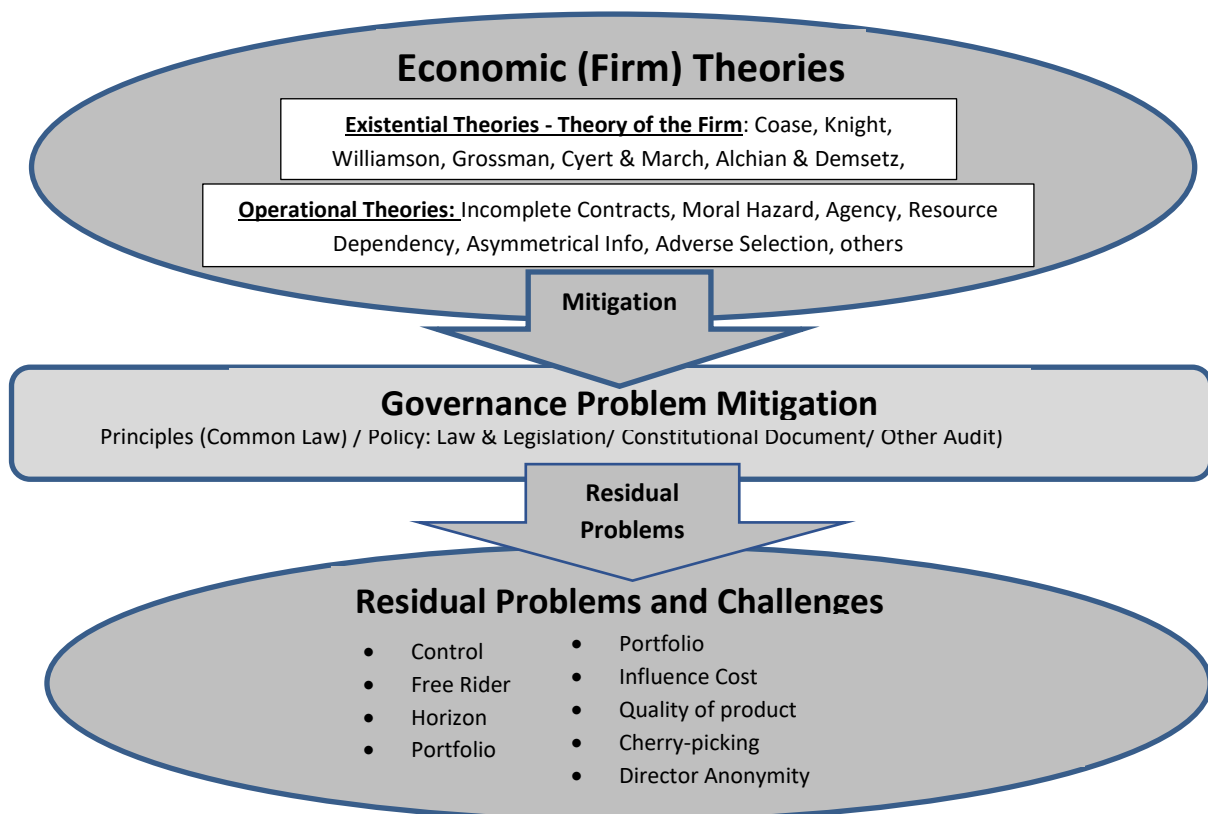


Figure 4. 1: Economic Theory, Mitigation and Residual Problems

The structure of this chapter has two sections. Initially, the chapter examines economic theories that relate to governance. The output from this analysis is then applied to understand how these theories of governance relate to cooperatives entities. This theoretical framework is then applied to the theoretical framework to cooperatives in Australia and New Zealand to understand their success (or lack of) in mitigating the governance challenges that cooperatives might face. The findings from the previous chapters concerning the Cooperative Principles, the Law, and the Constitutional Documents are employed to understand the level of mitigation from a general perspective. Other governance artefacts such as the cooperative financial reports, website, and press releases are added to the analysis to form a comprehensive picture of the residual cooperative challenges faced by Australasian cooperatives.

4.2 Economic Theories

This section provides a brief synopsis of the major Theories of The Firm (ToF). Examining the various economic theories enables us to separate these into two categories, that of the reason for the existence of the firm and the operational theories that affect the control of the firm. The rationale for this separation is that the Theories of the Firm – the existential theories are all about why the firm exists while the remaining theories cover off the way firms operate. Although IOFs have different structures, objectives, and possibly differing strategies, it is necessary to understand the cooperative entity when viewed through this lens. This section seeks to link cooperatives to the Theory of The Firm which has been built from a number of core contributions. There are a few other contributions to the theory; however, many of these can trace their origin back to the core theories.

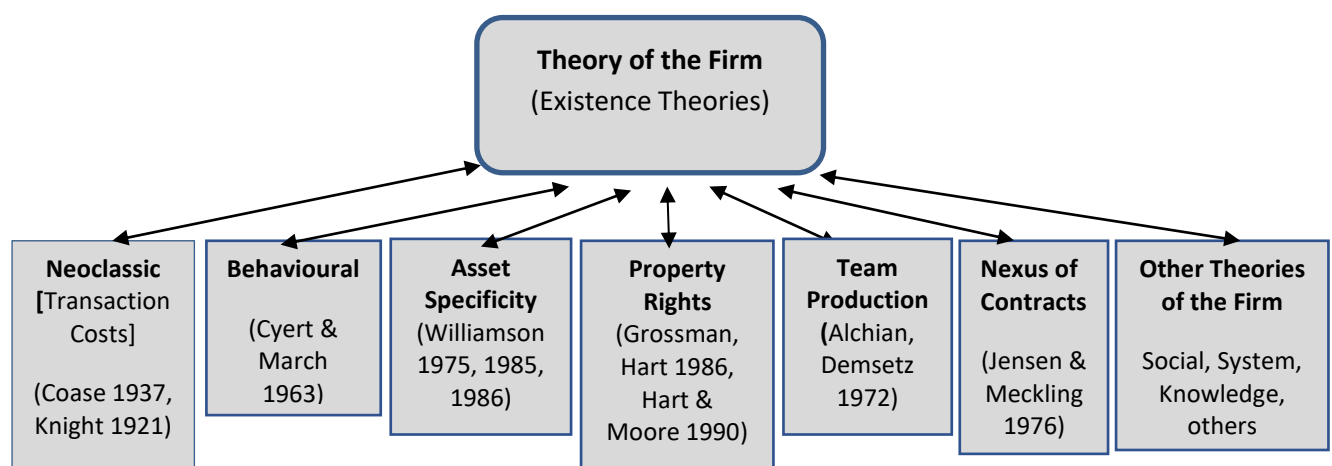


Figure 4. 2: Theory of the Firm

The Theory of the Firm explains why a firm exists as a separate entity rather than relying solely on the market. Coase (1937) is acknowledged as being the first to postulate a theory of the firm. However, some scholars suggest that Knight (1921) may have predated Coase in the neoclassic theory of the firm. Coase's theory (1937) is based on the argument that a firm would exist if the internal costs of a transaction exceeded the external costs of a transaction. Relating this to cooperatives, specifically dairy agriculture cooperatives, one can understand that the cost of milk collection or a dairy processing plant would be far out of reach for a single farmer. The farmers setting up a separate entity to handle collection or processing could be seen as aligned with the neoclassic theory.

Cyert and March (1963) extended the Theory of the Firm by developing a theory that is based on how decisions are made within the firm. It is known more commonly as the Behavioural Theory of the Firm; there are many extensions to the theory that have been proposed by other scholars. They believed that the firm should not be seen only as a single entity but consisting of individuals and groups of people within the entity, with all making decisions in complex situations based on their own cognitive ability. They further believed that firm behaviour is the outcome of the conflicting interests of the individuals and groups within the entity. They coined the phrase "bounded rationality" which is applied to individuals and groups that, when limited by their own cognitive ability, make decisions to achieve objectives that they can understand rather than maximise profit in all circumstances. Cooperatives suffer from the same limitations as a firm as they employ in a similar manner, and it is suggested that the cognitive ability in most circumstances would mirror that of an IOF. Generally, all firms, whether they be cooperatives or IOFs, suffer in a similar way from the limitations of the decision-making described in this theory.

Williamson (1975, 1985, 1986) devised a theory of the firm based on asset specificity. Asset specificity refers to the use of an asset for a particular purpose and spans the physical asset through to the human asset or skill. The acquisition of such an asset would not be economically justifiable when used just once, in the same way, a human skill required infrequently would not be justifiable either. The theory postulates that a firm would form around the use of that asset in order to employ the assets for separate discrete purposes. A

cooperative milk processing plant, in keeping with the example of a dairy cooperative, would be an example, so too is the collection of milk using specific trucks that could not be used for other purposes.

The Grossman, Hart and Moore (Grossman and Hart, 1986; Hart and Moore, 1990; Hart, 1995) approach to the theory of the firm was based on property rights and incomplete contracting. The three authors collectively over time argued that there are no contracts that are complete as a possible result of asymmetrical information and the fact that not every eventuality could be thought of at the time of the contract negotiations. As a result of incomplete contracts, the "incomplete" part of the contract would be solved by property rights, as the owner of the "property" would control the rights. This materially affects the future negotiation of the parties to the contract. Dairy (and other) Cooperatives, from the organisational perspective minus the ownership layer, would be susceptible to the property rights difficulty external from the cooperative organisation (not the input farmers) to the customers who use the cooperatives products as input to their production difficulty. The associated incomplete contracting problem would manifest itself here as well. This assumes the farmer-owners act in the same way as investors in a corporate IOF entity

In the "Team Production" view of Alchian and Demsetz (1972), efficiency is gained by the creation of a team rather than operating as individuals. The group of individuals are guided and monitored, by the owners, in the creation of products which will then be on-sold to other households or firms. The concept of individual *shirking* required the monitoring of efficiency to the lowest level of the employee. Demsetz (1995) sums up the specialisation theory of the firm as, *"the bottom line of specialisation theory is that firms exist because producing for others, as compared to self-sufficiency, is efficient; this efficiency is due to economies of scale, to specialised activity, and to the prevalence of low, not high, transaction costs"* (Demsetz 1995: 11). A cooperative is mentioned in the original work of Alchian and Demsetz as an organisational structure that could be less efficient than the other forms, notably the IOF. This was as a result of multiple ownership of the cooperative which is not easily synchronised to have a common goal for the "team". However, the inefficiency aside, the cooperative organisational form would have similar problems that are encountered by other forms of business as on that perspective the cooperative has no significant differences employing people who form part of teams and directed by managers reporting to a Board of Directors.

Jensen and Meckling Nexus of Contracts Theory of the Firm postulates that the firm exists as a series of contracts between the various stakeholders including the owners, directors, managers, employees, suppliers, and customers. "*most organisations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals*" (Jensen and Meckling 1976, p. 310). When examining contracting complexity in the stakeholders of a dairy cooperative entity, the supplier and owner are the same person which could simplify the contracting model by removing one item from the contract-chain. As the cooperative entity has a very similar structure at the organisational level to that of the corporate and other entities, there is no real substantial difference in the way contracts of the stakeholder are conducted.

There are other models associated with the *Theory of the Firm*; however, many of these are variants on the major theories discussed above. One additional cooperative positioned Theory of the Firm is the *Social Systems Theory of the Firm* of Valentinov and Thomson (2019) where the authors base their argument on Marshall's book *Principles of Economics* (1890). They argue, using Marshall work, that "*the principles of complexity reduction and critical dependence translate into the demand for and supply of social systems*". They believe that a trade-off between complexity-sustainability results in a trade-off between coordination and cooperation.

In addition to the above "existential" theories, there are a number of theories that have been postulated by different scholars that describe the theories that affect the operation of a firm, for the purposes of this analysis they have been labelled as the "operational" theories. The illustration below represents these theories. Please note that while these theories have been explained as being separate and able to "stand" by themselves, there are linkages to both the Theory of the Firm as well as the problems that firms encounter when the adverse effects of these theories are not minimised.

4.3 Governance Problem Mitigation

Governance mitigation tools are usually specific to the region in which they operate. For example, the mitigation of Governance problems in Australia would be reliant on how the Principles of Cooperation have been implemented in the Cooperative law (See Chapter-2

"Principle-based Co-operative Law" for more information on how the principles are embedded into Australasian Cooperative law). The Principles can be viewed as a type of "common" law; however, the policy implementation, as was seen in Chapter-2, is very different for the two countries. Cooperative law exists in each State impact Federally other laws such as the Consumer Protection laws, and even the laws of taxation have an impact on cooperatives. Furthermore, regulation such as the Dairy Code of Practice announced in 2019, would also affect how the governance problems can be mitigated. In New Zealand, the situation is similar where cooperative governance problems are being mitigated by the Cooperative Law, the Companies Law, and DIRA to an extent. Any other regulation that could possibly favour one organisation structure over another would also have to be examined for both countries. So too is the application of provisions in the Constitutional document which (See Chapter-3 *"The Cooperative Constitutional Document"* for more detailed information) can have a substantial mitigating effect on the residual Governance challenges that cooperatives face. For example, specific provisions to allow more member governance would allow for more oversight which could limit the Governance problems. However, costs associated with increasing governance challenges are real and have to be taken into account as will be discussed below as well. Publicly listed companies are regularly checked by analysts and when financial reports are published, the analysts, as well as the stock exchange compliance officers, analyse the details and publish their opinions of how the company fared. This process is healthy as it opens all public companies to scrutiny that is not as evident in privately owned entities which include cooperatives.

4.4 Residual Governance Problems

No matter how much problem minimisation and mitigation take place, there will always be evidence of the residual, or parts of the governance problem, that could not be fully negated. After application of the mitigation tools, there are a number of known governance problems that continue to manifest themselves. This section looks at each of the Governance problems individually and analyses the symptoms, the background, and how the problem is affected by the Australian and New Zealand environments of Australasia. No matter to what extent the mitigation tools are applied, there will always be residual problems remaining. However, the effectiveness and impact of these problems can be minimised through a combination of

principles, law, constitutional documents, and good member engagement for cooperatives. Cooperatives face similar governance challenges to that of IOFs; however, due to the social nature of cooperation, there are a few additional governance concerns of cooperatives that could shape the governance structure. Before a comparison is made with the governance issues between an IOF and cooperative we first need to look at the cooperative specific problems and why these are distinctive to cooperatives generally and then look at the theory of the firm and how this is applied, or can be applied, to a different business model, the cooperative. Once again, the view taken is that of the dairy cooperative within Australasia.

4.5 Method

This chapter used Document Analysis (Bowen, 2009), and Content Analysis (Krippendorff, 2013) and the output from the previous two chapters. The challenges that affect cooperatives are well documented with much research dedicated to the understanding of how these problems shape modern-day cooperatives. Nevertheless, the underlying mitigation factors that could minimise the impact of these problems have not been adequately researched. Notwithstanding the mitigation and minimisation of cooperative governance problems, residual governance problems will always remain. However, it stands to reason that the greater the mitigation, the smaller the residue of the governance problems, and the more successful a cooperative will be in its operation. Using a combination of the principles, the law, and the constitutional document as defined as the Cooperative Policy Framework (CPF), each of the known problems was examined to understand the level of mitigation when applying the CPF to the particular problem. Much of the analysis of the governance problems and how they relate to the cooperative policy environment has been completed in previous chapters. See Chapter-2, *Principle-Based Co-operative Law* and Chapter-3, *The Cooperative Constitutional Document* for further analysis on the Law and the constitutional documents of the two regions. It is therefore prudent to summarise the analysis of the previous chapters before we commence with the findings and discussions on the governance problems that cooperatives encounter and how these can be minimised or mitigated by the cooperative policy environment.

The principles of cooperation have been adapted over the years, notwithstanding the adaptation, some regions have created their own set of cooperative principles (USDA-3 in America), others have a subset of the ICA-7 principles to define a cooperative in their legislative environment (FCA in the UK); still, others have created a "basis of cooperation definition" (Canada in their Federal law), and others have decided to remain silent on the use of cooperative principles in their law (New Zealand). Table 4.1 below depicts the timeline that cooperative principles have taken over the past 150 years.

1844-1899	1900 - 1949	1950 - 1999	2000 - 2019
<u>1844 Rochdale Equitable Pioneers</u> Formation of the entity, no real organisational law for this form yet.	<u>1937 International Co-operative Alliance (ICA)</u> Adopts original Rochdale Principles as the Rochdale Principles of Co-operation.	<u>1966 International Co-operative Alliance (ICA)</u> removal of "Limited Interest on Capital" and "Cash trading" principles from Rochdale-7, now ICA-6 (1966)	<u>2002 United Nations (UN), International Labour Organisation (ILO) Recommendation 193 - ICA 7 Cooperative principles adopted</u>
<u>1895 International Co-operative Alliance (ICA)</u> Formation of the International Cooperative Alliance, Rochdale principles are adopted as the first set of principles		<u>1987 United States Department of Agriculture (USDA)</u> proposes three principles of cooperation, some overlap with Rochdale-8 (from 1966 ICA principles)	<u>2009 UN</u> Resolution 64/136 declares 2012 as the International Year of Cooperatives
-		<u>1995 International Cooperative Alliance (ICA)</u> rewrites cooperative principles, publishes seven principles (ICA-7)	<u>2012 UN</u> Launch of the International Year of the Cooperatives. Three main objectives: Increase Awareness, Promote Growth and Establish a legal framework for cooperative formation/growth
-		<u>1998 Canada</u> Canada (Federal government) published a set of "cooperative basis" principles which included eight cooperative basis operation. These overlap with the ICA-7.	<u>2013 USDA</u> re-examines USDA-3 against the ICA-7 principles and recommends no change (USDA-3 remain)

Table 4. 1: Timeline for Cooperative Principles

As can be seen, by the chronology above, the ICA principles have been subject to a number of changes since they were first crafted in Rochdale by the Weavers; however, it seems that the principles are not always adopted either in full or in part. The embedding of these

principles in the law is crucial to mitigate the effects of the governance problems that cooperatives face.

The law has, in most cases, mandated the creation of a constitutional document which can have a material effect on the governance of a cooperative, Table 4.2 below displays mandated provisions for ten countries in the world including Australia and New Zealand.

Classification	Aus	Brazil	Canada	EU	France	German	India *	NZ *	South Africa	UK	Tot
Operational	5	2	6	5	2	2			6	6	34
Regulatory	2		1		1		1			1	6
Membership rules	6	1	8	1	2	1			7	2	28
Member Governance	(13)	(9)	(8)	(6)	(8)	(4)			(20)	(7)	75
Member Control	8	4	3	4	6	1	1		14	3	44
Member Benefit/ Economic Particip.	1	3	1	1	1	1			3	2	13
Member Owner	2	2	5	1		1			2	2	15
Member Info	2				1	1			1		5
Total Count (mandatory provisions)	26	12	23	12	13	7	2		33	16	142
Percentage of Member Governance vs Total Count	50%	75%	35%	50%	62%	57%	n/a	n/a	61%	44%	53%

*Having a constitutional document is not mandated in the Act/ Law of India and New Zealand

**This table is duplicated from Chapter-3 for ease of reading

Table 4. 2: Number and Category of Mandated Constitutional Provisions, Analysis by Country

When the mandated provisions were applied to Australasian dairy cooperatives, Table 4.3 below shows the effect of having a cooperative constitutional document by contrasting Australia and New Zealand as far as member governance provisions are concerned.

Item	NZD	NZF	NZT	NZW	NZ Ave	AUA	AUD	AUN	Aus Ave
Member Ownership Totals	1	1	1	1	1	1	1	1	1
Member Benefit Totals	2	2	2	2	2	3	4	4	3.67
Membership Rules Totals	1	1	1	1	1	1	1	1	1
Member Information Totals	1	2	1	1	1.25	2	4	3	3
Member Control	21	17	19	20	19.25	29	25	26	26.67
Member Vote Totals	8	4	3	4	4.75	8	9	9	8.67
Member Meetings Totals	8	8	11	10	9.25	12	10	9	10.33
Directors and Board Totals	5	5	5	6	5.25	9	6	8	7.67
TOTALS	26	23	24	25	24.5	36	35	36	35.67

Key New Zealand: NZD = Dairy Goat; NZF = Fonterra; NZT = Tatua; NZW = Westland

Key Australia: AUA = ADFC; AUD = DFMC; AUN = NORCO

**This table is duplicated from Chapter-3 for ease of reading

Table 4. 3: Results from Content Analysis Phase

4.6 Chapter-4 Research Questions and Hypothesis

In order to study these problems, the following overarching research question together with an overarching hypothesis has been proposed that will allow for a structured approach to proving the hypothesis. For this study, the combination of the cooperative principles, the cooperative law, the cooperative constitutional documents, and any related cooperative regulation is defined as the *Cooperative Policy Framework (CPF)*.

4.6.1 Overarching Research Question

To what extent does the application of cooperative principles, the law, and the constitutional document mitigate the known governance problems in Australasian dairy cooperatives? To what degree are residual governance problems apparent in Australasia?

4.6.2 Overarching Hypothesis

Where the cooperative policy framework is not well defined or is incompatible with the cooperative ethos, more significant cooperative governance problems will exist.

4.6.3 Chapter-4 Research Questions

The overarching research question is broken down into components as listed below that assist in the analysis of this element of governance. These are proposed as follows where S-RQn is the number of the Subordinate Research Question:

S-RQ1: Is the cooperative policy framework of Australasia effective in the minimisation of the Control Problems?

S-RQ2: Do Free Rider Problems exist in Australasia to any extent, and in what form?

S-RQ3: Is there evidence that the cooperative policy framework has mitigated the effects of the Horizon Problem

S-RQ4: Does the cooperative policy framework minimise the risk that cooperatives members have in particular, the Portfolio Problem?

S-RQ5: Is the Influence Cost Problem dealt with by the cooperative policy framework?

S-RQ6: Are there other cooperative Governance problems that the cooperative policy framework addresses?

S-RQ8: Does the cooperative policy framework in Australasia create additional cooperative Governance Problems, and what are these?

In the next section, we discuss the individual governance problems looking through the lens of the cooperative policy framework using the previous chapters that discuss Cooperative Principles and the Law, and the Constitutional Document. The problem is first discussed followed by an examination of how and what symptoms might be present if this problem existed in a large degree in a cooperative followed by an analysis of the evidence of any mitigation control as contained within the Australasian cooperative policy framework, separately for Australia and New Zealand as their legislative frameworks are entirely dissimilar.

4.7 Review of Major Governance Problems

This section provides a concise summary of the major governance problems that differ, in many aspects, to that of the IOF. For each governance problem, once the CPF has been applied, the best case is that the governance problem is largely mitigated. However, it is possible that some of the problem remains after the application of the CPF; this is the residual portion of the problem, or “*Residual Problem*”.

4.7.1 Agency or Control Problem

The Agency, or Control, problem gives rise to many other problems which are discussed below. Many cooperative problems seem to stem from this one problem, that of the separation between ownership and management, therefore much of this section is dedicated looking at the Control problem in light of the cooperative principles, the law, and the constitutional document. Agency problems (Jensen and Meckling, 1976) arise where the interests of the owners and their agents are not aligned. Often called the Control Problem, this problem exists in all organisations where ownership and control are separated. Cooperatives have some control over who sits on the boards but cannot, to all intents and purposes, govern the directors' interests if it deviates from the member population. Besides the divergence of interests between the directors and member-owners, it is possible that it could exist in a divergence of interests between the directors and the professional cooperative management. Cook (1995), citing Hansmann (1999), believes that smaller cooperatives suffer less from this issue than similarly sized IOFs due to the nature of the member's income, which was mainly from the cooperative. However, it could be argued that the aspect of size advantage could limit the agency problem when examining a small corporate entity as well. The nexus of contracts view of Alchian and Demsetz (1972) is another form of the principal-agent issue where management contracts do not differ from the contract between an internal and external party. Coase (1937) and Simon (1951) believed that the management had the authority, and, therefore, the contracts with employees were broader and more easily applied. Moral Hazard, which is related to the Agency, or Control Problem finds its roots within the asymmetrical information issue where owners and the managers have different information, and, therefore, the managers use this information gap opportunistically. Asymmetrical information would be found in cooperatives as the management contracts within a cooperative often do not differ from those of a traditional firm, and therefore neither is the information asymmetry likely to be any different.

Management Incentives, aiming to reduce the Agency Problem, within a cooperative are different from that of other organisational forms. Shares in a traditional cooperative are a closed pool not able to be allocated to parties that are non-suppliers; however, some cooperative in other regions have an investor-class member category, so this could be used to incentivise managers to align their interests with the owners. Williamson's work (1971, 1973, 1975, 1979, 1985, and 1996) was based on bounded rationality and opportunism, both of which can result in incomplete contracts. Williamson mentioned many viable solutions to the Agency Problem in his work which could be applied to supplement governance mechanisms. As the management structure below the BoD layer is organised in much the same way as traditional organisational entities, cooperatives would likely suffer in a similar manner with the opportunistic behaviour of employees. Finally, Bonus (1986), found that increased cooperative size led to an increased heterogeneity and more Agency problems.

4.7.2 Free-Rider Problem

Free-Rider issues are described as issues that arise when property rights are unassigned or non-tradable (Cook, 1995; Royer, 1999). Cooperatives rarely have assigned property rights resulting in the Free-Rider problem of, for example, a non-cooperative dairy farmer is assigned the same prices (rights) that a large cooperative has negotiated without joining the cooperative. Using Fonterra as an example allows for a clear appreciation of how this problem comes about. Fonterra sets its milk price (farm-gate price) based on a number of variables, however, once this is set, other cooperatives and IOFs use this as a base for their farm-gate price calculation for their suppliers or members. Internal Free-Rider issues exist in the case where new cooperative members have the same rights and advantages of long-term members. When a new member joins, they enjoy the same privileges and rights as those members who have been in the cooperative for several years. Iliopoulos and Cook (1999) state that because of the continuing dilution of the rate of return of the members, there is no incentive for long-term members to invest in the cooperative.

4.7.3 The Horizon Problem

The horizon problem refers to the reason there is a disincentive to invest in long-term projects by members; it refers to a time horizon problem when the returns of the project could be shorter than the member's cooperative association (Cook, 1995). Many cooperatives that

form with similar member demographics can result in a time-horizon problem for the cooperative. Without new members continually joining the cooperative, the pressure for the long-standing members is to get the directors to reduce retained earnings and pay this out to the members for their benefit rather than invest in long-term projects. New Generation Cooperatives (NGC) use tradable stock to mitigate the horizon problems, but the success has been limited by the fact that the tradable stock is commonly restricted to active members of the NGC only.

4.7.4 The Portfolio Problem

The portfolio difficulty lies in the lack of transferability of the residual member equity, meaning members of a cooperative cannot buy and sell shares in a cooperative to match their risk preference. Some members would prefer a higher risk profile and more returns, while others prefer a more conservative risk avoidance approach. Royer (1995, 1999) states that cooperative members are more impacted by this problem due to the closed nature of cooperative investment which is closed to members only and does not allow external investors to buy shares. The gap between the risk profiles of the two views causes the portfolio limitation, therefore restricting the growth of the cooperative.

4.7.5 Influence Cost Problem

Influence cost problems exist in cooperatives more than IOFs due to the diverse nature of the membership and ownership. Royer (1999) defined the cost as being associated with influencing other members. The size of the cost is contingent on the central cooperative management; the process of decision-making; and the degree that members are similar in their thinking. Royer (1999) states that cooperatives suffer more than IOFs do with divergent interests, as the shareholders of a firm are more homogenous in that they want the firm to provide dividends and growth for their shares. In contrast, the members of a cooperative would have very varied interests along the cooperative supply-chain continuum.

4.7.6 Other problems

There are, in addition, to the above problems with cooperative governance, issues of anonymity with the directors serving the cooperative. These directors are often members of the local community sharing social interactions with the farmers they serve. This often places

the director in an awkward position, which is quite different from that experienced by directors of publicly listed companies. The shareholders of publicly listed companies are unlikely to interact with their directors socially and even less likely to have a detailed interest in the operation of the entity. Issues of Quality of Product can cause tensions within the member community, for instance, if a high-quality product were created the labour associated with the separate process for picking, grading and storing would be borne by all the members yet the proceeds of the high-quality produce would accrue only to a few members. Cherry-picking is often found within member-owned businesses where individual members can take advantage of the average return base to lower costs and thereby burden the cooperative with additional costs that should be borne by the member.

4.7.7 Summary of the Major Cooperative Governance Problems

Cooperative Governance problem	How this manifests itself within a traditional cooperative
Control	This is the agency problem between the directors and the member-owners. A divergence of interests between the two parties can also exist between the directors and management of the cooperative as well.
Free rider	New members are afforded the same rights as long-standing members – same vote; same benefits; no appreciation of share value
Horizon	Disincentive to invest in long-term projects. Members usually have a similar timeframe (and lifespan) as members. Members want maximum pay-out rather than investing in projects that may not personally benefit them
Portfolio	Members have different risk appetites and, therefore, block more risky initiatives at the expense of higher returns. The member cannot buy more shares and thereby influence – one member one vote issue votes not based on the number of shares but the member vote.
Influence Cost	Costs associated with activities that members engage in, in an attempt to influence the decisions that affect the distribution of funds. Cooperatives may experience more significant influencing costs due to the diverse nature of the membership. (Royer, 1999; cook 1995; Milgram and Roberts; 1990)
Other problems	There are other problems which have been dealt with in the text, including Quality of Product, Cherry-picking, and Director Anonymity, for example.

Table 4. 4: Summary of the Major Cooperative Governance Problems

4.8 Discussion

This section uses the output from the above QDA to discuss the various applications of the law and the constitutional document in order to understand how effective the mitigation provisions are in practice. The answers are Answered or Confirmed, Not Answered or Rejected, or not enough data exists for an answer of any sort. This discussion is theoretical in nature, and the next chapter seeks to find evidence that these problems have been mitigated, and to what extent they have been minimised or mitigated.

4.8.1 Evidence of Agency or Control Problem

S-RQ1: Is the cooperative policy framework of Australasia effective in the minimisation of the Control Problems?

The International Cooperative Alliance set of 7 principles (ICA-7) have as Principle-2 *Democratic member control* (International Cooperative Alliance, 2015) which supports the control that members have over their cooperative. This principle supports member control over their cooperative, including decision-making. The United States Department of Agriculture in its three principles of *User-owner*, *User-control*, and *User-benefit* supports member control through the second principle of Member Control. Furthermore, both Canada and the United Kingdom who in defining the characteristics of a cooperative both state that *Democratic member control*, taken from their partial adoption of the ICA-7 principles, is one of the characteristics in which they believe the cooperative nature of an entity is confirmed. This implies that all the principles of cooperation support member control in making decisions and in voting. However, as found in Chapter-2, the law while in some cases states the principles of cooperation yet does little to mandate member control in the law. When considering the policy environments of the two countries in Australasia, it can be observed that they are quite different. In Australia, cooperative laws were adapted in some part to more closely align with the principles of cooperation from the International Cooperative Alliance (ICA-7). Furthermore, each state has its own law which, in many cases, is aligned with other states cooperative law following the Australian Uniform Cooperative Laws Agreement (AUCLA) in 2012. Although there is one state (Queensland) in Australia that is not yet a signatory to the AUCLA, their cooperative law is similar and from advice, has been enacted and will be in force in 2021. In contrast to the State-based cooperative law, the Australian Corporations legislation is federally based, which has certain advantages.

In New Zealand, the cooperative law is a subordinate law to that of the Companies Law (New Zealand Government Companies Law, 1993) which has the effect of cooperatives being seen as a special form of a company; this is not always in the best interests of cooperatives as was discussed in Chapter-2. Furthermore, the enactment of the Dairy Industry Restructure Act of 2001 (DIRA, 2001) has further complicated the policy environment that New Zealand cooperatives operate in.

Cooperative Law in most countries mandate what is required to be provided for in the constitutional document; these provisions afford members certain rights and obligations. In the case of Australia, this holds true; however, in New Zealand, a constitutional document is not mandated, nor does the cooperative law follow the ICA principles. Chapter-3 has provided more detail, discussion, and findings on constitutional documents in Australasia. Perhaps the open nature of the legislation for cooperatives, the intention was to move the responsibility of Member Control to the constitutional document. However, where a constitutional document is not mandated, it would leave the responsibility of member control to the cooperatives themselves which are likely to be less efficient than where the cooperative law mandated a constitutional document and had provisions to ensure that member control was protected.

Theoretically, in a perfect cooperative structure, members vote in their directors who then appoint a chairman from the director ranks. Once this structure is complete, the BoD looks for a suitable candidate to operate the business on behalf of the board and appoints a Chief Executive Officer (CEO), sometimes the chairman takes this role on as an executive chairman. The management layer below the BoD then employs suitably qualified or experienced employees to perform lower-level operational duties. In some regions members vote for all directors (some EU countries), other regions do not allow non-member directors (some American States) and still, other regions (example: South American countries) do not allow an Executive Chairman, preferring to separate strategy and management by the appointment of a CEO. The simple and common cooperative structure is therefore complete once this last step has been carried out. In Figure 4.4 below, a simple cooperative structure is shown, which is common to many cooperatives in various regions.

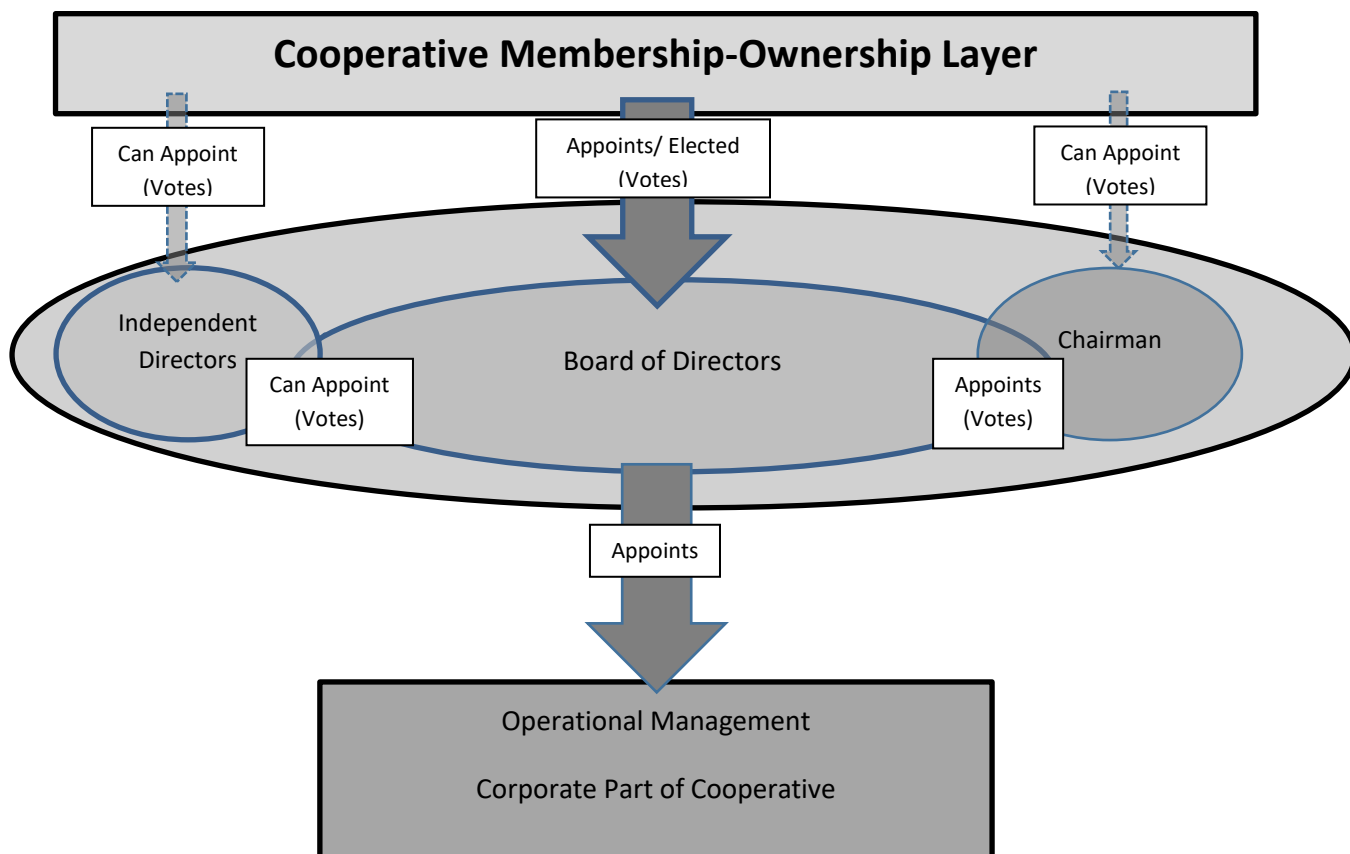


Figure 4. 3: Simple, Common Cooperative Structure

Looking at where Agency or Control Problems can occur in a cooperative, it is clear that the problem can exist between the members and the BoD; the BoD, and the operational management. In some cases, the problem can exist between the member directors and the independent directors. Anything that removes the control intent from the members by moving it to another group can result in member governance control issues. It is also possible if the cooperative appoints a Shareholder Council that functions between the BoD and the membership, that agency or Control Problems can occur here as well. The basic premise is that control is delegated in an orderly fashion from the embers to those layers that require operational control. For example, the members would not be interested in being informed, or even voting on, decisions of a minor operational nature such as the replacement of worn parts in a processing plant except where this decision might impact the farm-profitability. On the other hand, any decisions that require substantial financing, yet were expected, might be made at the BoD level with information on the decision being shared with the membership. For those decisions that are strategic in nature and would have a significant impact on farm-

profitability for the members, such as a reduction in the farm gate price; the building of a new plant; the signing of a major long-term contract; the expectation is that members would be informed about the potential decision prior to the decision being made by the BoD including member involvement from a governance perspective.

What has been described above is a simple delegation authority in order to balance the need to make decisions without onerous governance processes against ensuring that the cooperative owners are involved in those decisions that have the potential to impact farm profitability and therefore cooperative supply.

The voting in of member-directors is crucial to members having control over their cooperative and therefore in reducing the Control problem as it is assumed that the member directors would have similar views as the other members. The voting in of independent directors, while not common in New Zealand, is usually undertaken by the BoD. Members in some Australasian cooperatives have oversight and need to ratify any board appointments while in other cooperatives this is not required. Without having a say in who the independent directors are and their background, it is possible that multiple independent directors could make decisions that affect members without their input. So too is the quorum and makeup of the quorum of directors when voting at a board meeting, on resolutions. If independent board members can outnumber member directors in a quorum, it is possible that members interests may be compromised, giving rise to an increased risk of Control Problems. The maximum term for any director could be seen as a possible way to ensure that directors remain abreast of their membership with new ideas continually being brought forward in the lifecycle of the cooperative. Although many cooperatives limit the term, ensuring that the directors have to be voted in again each cycle of three, four, and five years they can be re-elected. Without an "end-date" for directorship, it is possible that member director influence may be weakened, and a power base could evolve with long-term directors no longer fully representing their members' interests thereby increasing the likelihood of Control Problems. The definition of a member director is yet another possible source wherein Control Problems can arise. In many regions, a member director can only be appointed to the board if they are an active supplier while in other regions it is possible that member directors can be appointed even if they are not actively supplying and only have a financial interest in a supplier.

Voting of members and directors is often difficult with many of the cooperatives in Australasia scheduling their Annual General Meeting (AGM) within the peak season. This conflict

between farm-operations at busy production times can result in low attendance and coupled with the member quorum to pass resolutions could result in the membership voice being compromised which will, inevitably, lead to a Control problem where a sub-group of members hold power. Electronic voting and video conferencing could be used to ensure that more members have the opportunity to voice their opinion on cooperative resolutions, thereby reducing the likelihood of Control problems. Member quorums in many cooperatives are determined by the law or by the constitutional document; however, where this number of members that have to vote on resolutions is low, the possibility exists that Control Problems will become more apparent.

Voting rights of members are central to good governance and the mitigation of Control problems. Voting on strategic directions as well as voting on any major expenditure which will in a material manner affect farm profitability, is critical. One-member-one-vote is central to the democratic control that a member has in their cooperative. Milk shares are sometimes used in voting in Polls or Postal votes in Australasia; a milk share is usually determined by the quantity of product that a cooperative member supplies to their cooperative. In cases where milk-shares are used when voting on a particular resolution could shift the democratic control to those members who are able to attend the meeting and have a large number of cooperative milk shares. The shift in democracy from smaller to larger members can increase the possibility of Control Problems within a cooperative. So too is the oversight mechanism that members have over decisions that are being asked to ratify. A formal well-documented grievance procedure is often used in other regions, to address any concerns that a member might have about a particular decision which can reduce the Control Problem.

In order to avoid Control problems, the use of information and communication to members is seen as reducing information asymmetry and thereby mitigating any opportunity of the Control problem. Some Australasian cooperatives have information restrictions which can lead to information asymmetry which leads to Agency or Control problems. The methods of information sharing are relatively simple, but successful cooperatives rely on multiple forms without the issue of over-communication, which has the same effect of under-communication. Another method is to have multiple member meetings in the areas in which their cooperative operates where members get regular updates in smaller forums about strategy execution, allowing the members to ask questions and discuss alternatives.

In answer to the research question, *S-RQ1: Is the cooperative policy framework of Australasia effective in the minimisation of the Control Problems?* The findings are that Cooperative Principles support Member Control, except where the principles are either not adopted, or not followed in some form, by the respective country. Furthermore, Member Control should be found within the constitutional documents, and in Australia's case, it is, albeit not to a large degree; however, it does cover directorship, meetings, and voting. What is silent is the control of significant decisions by members where it was found that no cooperatives in this study included a provision in this regard in their constitutional document. In contrast, New Zealand does not have a mandated constitutional document leaving the Member Control principle the responsibility of each cooperative separately. The effect of this omission in the New Zealand Cooperative law is that the Control problem is likely to exist. No constitutional documents of the dairy cooperatives, similar to Australia, deal with large decisions that affect member Control except for changes to the constitutional document. **S-RQ1** is confirmed for the Principles of Cooperation where they have been adopted and partially confirmed for the law and the constitutional document for Australia.

However, New Zealand, as it has not adopted the principles of cooperation with no mention found in its law, has no mandated constitutional provisions within the cooperative law. **S-RQ1** is rejected for New Zealand.

4.8.2 Evidence of Free Rider Problem

S-RQ2: Do Free Rider Problems exist in Australasia to any extent, and how?

Free rider problems occur in two respects, as was discussed above. The problem exists externally, for other cooperatives; other dairy companies; and other dairy suppliers, and internally between members and their cooperative. From the Internal perspective, the problem manifests itself where a new member obtains the same rights and entitlements as a member who has been a part of the cooperative for many years. As shares are nominal in a cooperative, there is no method of share appreciation of invested capital, which is in contrast to that of an IOF. Additionally, when a member exits, he is entitled to his capital within a certain period of time. Yet, if this same member then re-joins, often cooperatives will allow a few years for the members to raise the capital required for the shares which leave the member in an advantageous position.

When considering the ICA-7 principles of cooperation, it can be observed that the free-entry-exit principle is found in the first principle of *Voluntary and Open Membership*. This principle allows the Free-rider Problem in principle.

The law of Australia has no mention of the entry-exit provisions besides stating the ICA-7 principles in the preamble of the Act. In practice, there is no single clause that supports or mitigates the problem, leaving it up to the constitutional document to deal with the theoretical problem. It must be stated that although the problem is not supported nor mitigated, it does not have a material effect on the cooperative other than the administration involved in member entry and exit.

New Zealand law is similar in that there is no clause within the cooperative law, nor the superior Companies Act, that supports or mitigates the Free Rider problem. However, within DIRA, Fonterra has to take on new farmers that meet its criteria and can only refuse based on amendments enacted in 2019 which include environmental reasons and new dairy farms as examples of Fonterra rejection. Notwithstanding the fact that any other member can freely enter and exit Fonterra, there is minimal impact on the capital of Fonterra as another amendment in 2012 allowed Trading Among Farmer (TAF) they opened a private share trading platform between members on the New Zealand Stock exchange. The constitutional documents of both Australia and New Zealand are silent on the issue of Free Rider problem with no additional provisions being made to either support or mitigate the Free Rider problem. There is one exception to this, and that is Tātua, which is a closed cooperative being of a New Generation cooperative. This enables them to choose their membership and reject any applications, without reason, from any farmer applying for membership with them.

However, the equity between members will be impacted, which can, in some cases, have a negative impact on participation and loyalty. The problem itself, as mentioned, does not result in costs besides the increased administration costs; however, the intangible cost of losing supply may have longer-term impacts on the longevity of the cooperative.

On **S-RQ2**, the finding is supported in all cases except for Tātua that Free Rider Problems exist in Australasia with evidence showing little has been done to mitigate this problem.

4.8.3 Evidence of the Horizon Problem

S-RQ3: Is there theoretical evidence that the cooperative policy framework has mitigated the effects of the Horizon Problem?

The horizon problem, as described above, refers to the reason there is a disincentive to invest in long-term projects by members. The problem exists in many of the cooperatives in this study as they were seen to impact the "Processing" dairy cooperatives from a theoretical point of view. New Dryers and new plants, besides other large capital outlays, are some of the projects that processing cooperatives require to maintain their competitiveness. When the cooperative plans a project that will deliver results outside the membership lifespan of a member due to their age, for example, a disincentive exists not to invest or agree to the project. In the previous century, often the capital required for a large-scale project was sourced from members, and any shortfall was financed through financing companies and banks. The practice of obtaining capital from the members has mostly seen a significant reduction in present times with most of the finance coming from a bank or a financing company. The membership, however, would need to agree to a reduction in their farm-gate price in order to allow for the repayments to be made until such time as the new project started producing results and became profitable. The reliance on external finance is difficult where the shareholding is nominal, and thus, the cooperative shares do not appreciate at the same rate when compared to IOF shares.

When examining the original Rochdale principles, there was provision for loans to the cooperative at a fixed rate of interest. The original principles stated *Capital should be of their own providing and bear a fixed rate of interest*. In the present day, this practice is rarely seen but could be a partial solution in some ways the Portfolio Problem discussed below. In some region's retentions are mandated within the cooperative law ensuring that cooperatives build up a capital fund to be used in market downturns or be used to fund projects. This practice in Australasia is left to the discretion of each cooperative separately, and few of the cooperatives have made provisions in their financial distributions for allocation to a retention fund.

S-RQ3 is therefore rejected with little being found in the law or the constitutions that mitigate the effects of the Horizon Problem in the CPF.

4.8.4 Evidence of the Portfolio Problem

S-RQ4: Does the cooperative policy framework minimise the Portfolio Problem?

The Portfolio Problem occurs where a particular member would like to take a different risk position to other members in the cooperative. This comes about as a direct result of the property rights structure of a cooperative (Plunkett, 2005). In summary, the members are unable to readjust their investment in the cooperative to suit their risk appetite. It is hypothesised that this problem is further impacted by the size of the cooperative, which in turn, is linked in other studies the heterogeneity of the membership. When examining the principles of cooperation, it is found that only one of the principles can be seen in any way related to the risk position of a cooperative member. The ICA-7 Principles of Cooperation have as Principle-3 *Member economic participation*, and the USDA-3 have as Principle-3 *User-benefit* Principle. By reducing the farm gate price substantially to allow for investments in external assets would likely be met with some resistance in the membership if this resulted in a reduction in farm profitability. Nevertheless, this could be viewed as a necessary investment by some members who might prefer riskier investments as long as the benefits could be explained to them.

Furthermore, surplus profits that should be returned to the patronage in proportion to their supply, in the case of a dairy cooperative. If this surplus profit could be diverted into other investments, some members may be in agreement, whereas others might not be. The heterogeneity of the risk profiles between members is a source of problems for cooperatives. As the principles do not specifically cater to different risk profiles, and nor does the cooperative law, it stands to reason that any rules around investment could potentially be dealt with in the constitutional document. A review in Chapter-3 of the constitutional documents of the seven dairy cooperatives found no trace nor mention of investments. However, some cooperatives dealt with this by allowing preference shares as a way of acquiring capital from members and then agreeing to a distribution of surplus profits as dividends. This could satisfy, in the short term, some members risk appetite for investment, but this would likely apply only to larger, more complex cooperatives.

S-RQ4 is therefore rejected as there is no evidence that aspects of the CPF minimise the Portfolio Problem

4.8.5 Evidence of the Influence Cost Problem

S-RQ5: Is the Influence Cost Problem dealt with by the cooperative policy framework?

Iliopoulos and Hendrikse (2008) found that heterogeneous member preferences, older average member age, and investment in several product lines all are a factor in higher influence costs in agricultural cooperatives. Influence costs inevitably arise in any organisation, including cooperatives, when decisions that affect the distribution of benefits among members of the cooperative where the affected individuals or groups attempt to influence the decision for their own their benefit. Two conditions are necessary to create the conditions for influence costs (Milgrom and Roberts 1992), one being the presence of a decision or decisions that can impact how benefits are distributed among the members, and the second condition is the members who wish to influence the decision must have the means to do so. The influence costs problem is a major governance problem in agribusiness cooperatives (Cook 1995). The presence of asymmetrical information among members together with the Control Problem mentioned above, further complicates and causes the problem to get more severe.

The Principles of cooperation do not have any specific mitigation other than the "blanket" principle of *Democratic Member Control* (ICA) and *User-control* (USDA), and as discussed above, the Control Problem is often not minimised in any significant way. The key to this problem and many of the other problems above is the availability of sufficient information which implies effective, targeted communication.

Examining the cooperative laws, we find that information is sometimes suppressed (New Zealand, for example) which is counter to good governance. This will inevitably lead to asymmetric information problems with some members having more information than others which, in itself, can give rise to the Influence Cost problem.

The remaining mitigation is therefore left to the constitutional document, where members can specify the form of communication that best suits the membership as a whole. However, in examining the Australasian constitutional documents, there is no evidence that the Influence Cost Problem has been dealt with in any way.

S-RQ5 is therefore rejected as no evidence can be found in the cooperative policy framework that deals with the Influence Cost Problem.

4.8.6 Evidence of other Cooperative Governance Problems

S-RQ6: Are there other cooperative Governance problems that the cooperative policy framework addresses?

Other Governance problems exist to a lesser extent, in cooperatives. Cherry-picking is one example where members choose services or deliver raw material to suit their farms. This is evident in dairy farms where newer products such as A2 milk, colostrum, and Peak Season milk. The cost of the administration in each of these is averaged across the cooperative, thereby lowering the costs for a member and increasing their farm profitability, at the expense of the other members. Product Quality is another problem, similar to Cherry-Picking where members can take advantage of pricing for higher quality products whilst their cost base is being averaged out and therefore spread across the entire membership.

The cooperative principles do not cover this in any specific principles; however, the ethos of the cooperative should make this difficult. The cooperative values of equity, honesty, openness, and social responsibility all point to the type of members that cooperatives would want to have. Notwithstanding the values, these problems mentioned above are found in most cooperatives, especially the larger, more complex cooperatives.

The cooperative law does not cater to specific provisions for these types of problems, leaving it to the constitutional documents to maintain the equity value. By ensuring that when a product is in the design stage, the applicable checks, balances, and mitigation steps can be installed to ensure equitable treatment across the cooperative for all members although the cost of a separate administration for different high-value products might negate the benefits that the membership can accrue. **S-RQ6** is rejected as evidence exists that indicates that the cooperative policy framework does not deal effectively with the Cherry-Picking and Product Quality problems.

4.9 Chapter-4 Conclusion

Much of the prior research conducted on cooperative governance challenges have taken a governance-layer approach where the underlying governance mechanisms of the principles, the law, and the important constitutional document were not fully taken into account, the authors rather concentrating research and effort on the governance problem itself. Furthermore, the problems around cooperative governance are similar in nature to those found in IOFs. Observing the different perspectives of the theory of the firm and the effect of these on cooperative entities, it can be argued that the majority of these problems (nexus of contracts; moral hazard view, incentive view, authority view, governance mechanism and others - see Appendix 4.1 for a representation of the theory of the firm) similarly exist in cooperatives as they exist in IOFs. It seems reasonable to assume that if few governance differences are found between cooperatives and IOFs, that these problems for cooperatives can be concluded as existing in the ownership "layer", that of between the members-owners of a cooperative and the directors-management layer of the cooperative entity.

Examining the problems facing cooperatives, we find that the issues that were said to be unique to cooperatives are mainly around ownership. The problems associated with cooperatives such as free rider, horizon, portfolio, control, and influence cost are more prevalent in cooperatives than in IOFs, but there is an overlap with governance theories, specifically the principal-agent problem. The problems of free-rider, horizon and portfolio are usually found only in cooperatives and not IOFs. The problems of control and influence-cost could exist in IOFs, with some research making the point that they most likely exist in a higher incidence in cooperatives than IOFs (Royer, 1999; Cook, 1995). The central issue in cooperatives and, therefore, the difference in governance is the structure and nature can be concluded as being undefined property and decision rights. Many of the problems that cooperatives face could be traced back to the property rights and decision rights issues; the free-rider issue exists because some cooperative property rights are unallocated; similarly, the horizon and portfolio problems are both symptoms of the unallocated property rights in that a single member of a traditional cooperative usually has a single vote so in that way cannot influence investment decisions or strategic initiatives. The control problem exists in both cooperatives as well as IOFs, as does the influence cost problem albeit to a lesser degree (Royer, 1999).

Chapter-2 found that cooperative principles are not often effectively implemented in the law. A disconnect between the governance problems can be clearly deduced in that the principles do not, except in cooperative values, successfully mitigate the governance problems of cooperatives. Furthermore, the law which has attempted, unsuccessfully in some cases, to translate the cooperative principles into policy is similarly not clearly linked to the governance problems in that they do not always minimise the effect of the known governance problems. The constitutional documents are one mechanism that can be used to implement a series of provisions that will minimise, to a satisfactory degree, most of the cooperative governance problems, however, this will be an undertaking that is not straightforward as it would require the calling of a Special-member meeting in a number of situations. A notable exception to one of the governance problems, the Horizon problem, was Tatau who being an NGC, did not have an open membership policy and chose their members carefully, which largely mitigated the problem. It can be concluded that having laws and constitutional documents that are targeted at minimising or mitigating the risk of governance problems for cooperatives would result in a more efficient cooperative environment.

The implications are numerous. The policy documents as found in Chapter-2 (where the link between the principles and law was examined) found that while some cooperative laws explicitly stated their linkage to the cooperative principles, there was little real evidence of provisions that effectively legislated the principles. Furthermore, the constitutional document in Chapter-3 was found to have few, or any, provisions that could assist in the general governance of the cooperative entity. Therefore, to solve the dilemma, an approach needs to be taken that addresses the principles, which were found not easy to implement in cooperative law, the translation of the principles into a legislative instrument that mitigated many of these governance problems, and finally a constitutional document that could further minimise the cooperative governance problems to a degree where it protected the member interests.

This research was purely theoretical in that it examined the known, well-researched governance problems that cooperatives could encounter. Further research is therefore needed to examine the actual view of Australasian cooperative members to analyse their governance rights in order to understand if the theoretical findings in this chapter are found in practice.

Chapter 5: Perceptions of Member Engagement and Governance

Participation by Australasian Cooperative Members

5.1 Chapter-5 Introduction

Many cooperative organisations incorrectly treat engagement as an operational or administrative aspect of the cooperative, however, where members are not active in the strategic decision-making of a cooperative the impact that this can have on member-loyalty cannot be understated. A lack of active engagement will inevitably lead to dissatisfied members which can lead to a diminishing supply base through member exit and will erode the reason for the cooperative's existence. Member engagement has been linked to cooperative success in many scholarly papers (Mazzarol et al., 2012, 2019; Nilsson & Hendrikse, 2009; Birchall & Simmons, 2004; others), so too has good governance been linked to positive commercial cooperative performance (Challita et al., 2014, Kyazze et al., 2017, Bijman et al., 2013, others). Furthermore, cooperative member trust has been linked to engagement in other research (Nilsson et al., 2009; Österberg & Nilsson, 2007; Barraud-Didier et al., 2019; Xiang & Sumelius, 2010; others). Therefore, effective cooperative organisations should strive to have a robust engagement plan to ensure that its members fully participate in the cooperative and in this way, build trust and form the necessary groundwork of good governance.

The Merriam-webster dictionary (Merriam-webster, 2020) defines engagement as *“emotional involvement or commitment”*, and the Cambridge Dictionary (Cambridge Dictionary, 2020) defines engagement as being the *“process of encouraging people to be interested in the work of an organization”*. As there are numerous definitions of engagement when referring to members and the relationship they have with their cooperative, this thesis has defined engagement as being made up of loyalty, trust, identity, motivation, relationship, community, and the definition above from Merriam-webster concerning the emotional involvement. We equate *influence* to the above definition of engagement. *Voice* refers to governance which are the rights of the members. It is hypothesised that member influence and member voice are two sides of the same coin. Weak

member engagement can lead to weak member governance, and weak governance puts an unnecessary strain on member engagement and can raise tensions with the cooperative organisation stakeholders. It is further theorised that good engagement takes the pressure off governance as trust and participation are likely to be high, and the presence of a comprehensive governance structure does not necessarily imply that the cooperative organisation has effective member engagement. Performance is another term used frequently in various research papers to indicate how well the cooperative is executing a particular strategy. For clarity, this thesis places a word preceding “performance” to describe the type of performance. For example, the preceding word could be financial, non-financial, social, operational.

Previous chapters have shown that cooperative principles generally form the guidance foundation of a cooperative policy framework. Very few developed countries are silent on either the International Cooperative Alliance (ICA) set of seven principles or the United States Department of Agriculture (USDA) set of three cooperative principles. The fact that New Zealand has not adopted the principles in any form and has not used the principles to mandate specific provisions within the constitutional document can be seen as an example of policy limitation. It was further found in previous chapters that the purpose of the constitutional document is to underpin the members' rights as far as their governance inputs are concerned. It was hypothesised in Chapter-2 (Cooperative Principles and the Law) that a lack of mandated provisions in the cooperative law could be resolved by having these provisions within the constitutional document (Chapter-3 The Cooperative Constitutional Document). Inadequate cooperative member input can lead to decisions being made without much-needed involvement from the members, which usually leads to poor engagement, participation, trust and satisfaction. A lack of these crucial ingredients may unsurprisingly lead to cooperative failure or conversion.

This chapter qualitatively analyses how member rights have been implemented in various dairy cooperative organisations from the member-lens viewpoint. The research includes both the engagement of the members as well as the governance rights assigned to members and examines previous significant decisions that the cooperative organisation has made. Major decisions often have the potential to adversely affect the member’s operational farm-profitability, which could lead to member exits and result in a loss of supply.

5.2 Problem Statement

Dairy cooperative members' *voice and influence* is perceived to be problematic. Members do not always understand their rights under the cooperative policy framework of the country, or the rights assigned to them via the constitutional document. Decisions are often (legitimately) made by the cooperative operating structure without appropriate member input which can result in a higher risk profile for their members. This diminishing financial return based on inadequate member governance can cause the cooperative members to become more distanced from the cooperative organisation which, if the members then exit, can result in a shrinking supply-base resulting in a weaker commercial performance of the cooperative organisation.

5.3 Purpose of the Study

The purpose of this chapter was to examine cooperative member perceptions on, and input into, several aspects of member-governance and engagement. The analysis qualitatively surveyed how engaged members were in their cooperative, their overall understanding of the rights allocated them through the cooperative law and their constitutional document, and information they received, and input they had, concerning the strategic decisions of their Board of Directors. Furthermore, the members were asked to make suggestions on how to improve both their engagement and governance when major decisions were to be made.

5.4 Significance of the Study

This research is the first time a comprehensive, qualitative, in-depth study has been made into Australasian dairy farmer perceptions of engagement with their cooperative organisation and the involvement of members in the decisions that are made that can affect member farm profitability. Moreover, there has been little research conducted on the effect that policy and governance documents have on the operational execution of the cooperative organisation and the member perception. Furthermore, little research has been conducted looking through the lens of the cooperative member when examining their understanding of the cooperative policy framework.

5.2 Literature Review

Why does a member participate in their cooperative, and what makes the difference to a potential member when choosing a cooperative? This question has been at the centre of many research papers published over the course of more than 20 years. However, while some

scholars believed that one was the cause and the other an effect of other characteristics, it is not clear in the literature. In considering the literature, the linkages between these aspects are sometimes inconclusive and can be contradictory in nature. This literature review will tabulate the various aspects of cooperative membership, including those characteristics that are sentiment or preference based and those that are governance-based. Contained within these features, are the demographics of both the member and the cooperative itself. Finally, the other items that can affect the members' continuance in the cooperative such as finance, strategy, marketing, and risk are also included. The grey areas of the tables are those aspects that are not being covered in a particular section and are “rolled-up”, so the individual aspects under each of the headings are not displayed.

The literature review found numerous aspects that can be broadly categorised into the “soft” characteristics and those that were more tangible and therefore categorised into the “hard” attributes. Therefore, when viewed from a macro-level, for the purposes of this thesis, the researched literature can be categorised into the characteristics of (1) Influence or Engagement (as defined above), which includes the member perceptions and sentiment; these facets include, for example, commitment, loyalty, motivation, relationships, and community; and (2) Governance or voice, which involves material aspects including, for example, general governance, principles, equality, voice, ownership. Other research found that there are common attributes which contain both the “soft” and “hard” characteristics of, for example, satisfaction, transparency, information, and communication (Feng et al., 2016, Gijssels, 2009). Consequently, the two broad categories are not distinct, independent items as significant linkages have been found between engagement and governance in the literature from both empirical (Osterberg & Nilsson, 2007; Xiang & Sumelius, 2010) and theoretical research papers (Jussila et al., 2012; Hendrikse & Veerman, 2003; Nilsson, 2018). Additionally, there are demographic attributes for the members and the cooperative that have been found in the literature that affects the way members “feel” about their cooperative and how they perceive their ownership rights in the cooperative (Gray & Kraenzle, 1998; Chechi, 2013; Feng et al., 2016). Furthermore, other research has found that there is a relationship between supplementary aspects of the cooperative which can include strategy, integration, marketing, and risk (Feng et al., 2011; Carr et al., 2008; Nilsson, 2018) and both the governance and the engagement categories mentioned above. The diagram below strives

to depict how this thesis defined the relationship categories of the high-level member attributes as found within the literature review and described above.

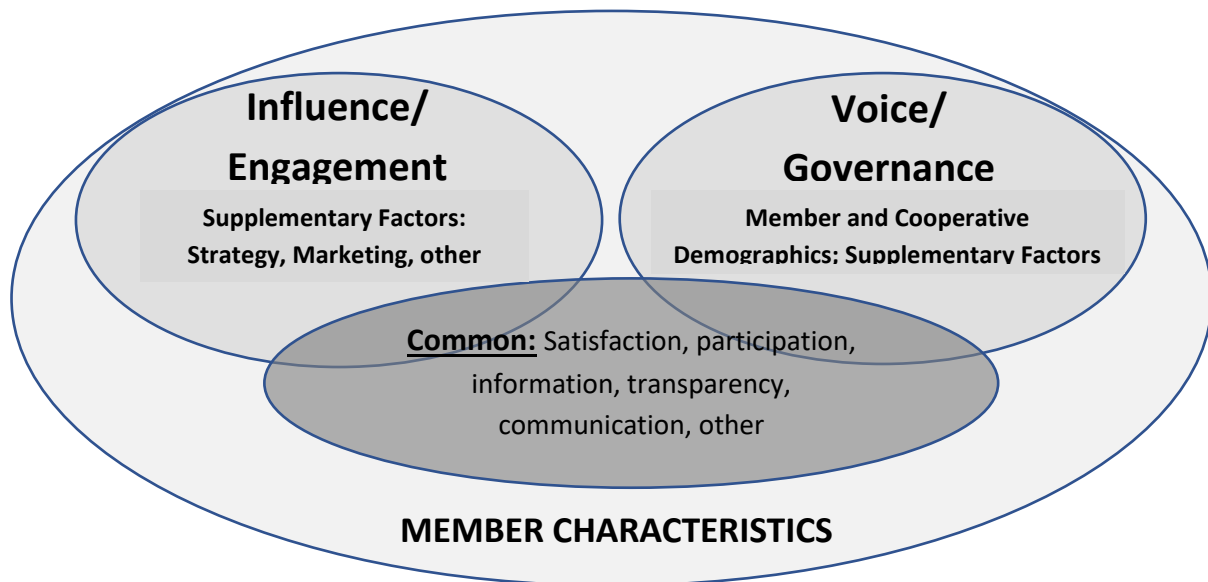


Figure 5. 1: Literature Review Categories of Member Attributes.

Characteristics The research papers that were aligned to the topic of Member *Voice and Influence*, and specifically those that examined the Australasian agricultural dairy cooperative members were the focus of this literature review. However, some important papers covered generic findings and other papers that researched other non-dairy agricultural cooperatives were also included. Engagement is linked to governance in that having good engagement implies that members are participating in their cooperative and therefore are privy to their cooperative's decisions and strategy that could affect their farm operation. In an equivalent way having good governance affords the members multiple opportunities to engage with each other and their cooperative organisation.

5.2.1 Engagement literature

Many attributes form the “soft” sentiments and perceptions of the members when viewed through a member lens. The structure of this section will look at the components of the high-level engagement category and then discuss these individually describing the associations between this category and the others of governance, demographics, and the supplementary categories. Table 5.1 below undertakes to summarise the literature on this characteristic.

Year	Author/s	Empirical/ Theoretical	Qualitative (QI)/ Quantitative (Qn)	Loyalty	Commitment	Trust	Identity	Motivation	Relationship	Engagement	Community	Common Attributes	Governance	Member Demographics	Cooperative Demographics	Supplementary
2007	Österberg & Nilsson	E	Qn		y	y						y	y	y	y	
2019	Apparao, D., Garnevska, E., & Shadbolt, N	T	QI		Y				Y							
2009	Nilsson et al	E	Qn			y	y					y	y		y	
2010	Xiang & Sumelius	E	Qn	y	y	y						y	y	y	y	
2013	Cechin et al	E	Qn					y				y	y	y	y	
1998	Gray & Kraenzle	E	Qn				y					y	y	y	y	
2012	Jussila et al	T	QI	y	y		y					y	y	y	y	
2019	Barraud-Didier et al	E	Qn	y	y	y			y			y	y		y	
2007	Bhuyan	E	Qn	y								y	y		y	y
2011	Feng et al	E	Qn	y		y						y	y	y	y	y
2005	Dakurah et al	E	Qn		y							y	y	y	y	y
2016	Feng, et al	E	Qn	y		y						y	y	y	y	y
2012	Mazzarol et al	E	Qn	y	y		y		y	y	y		y		y	
2019	Mazzarol et al	E	Qn	y	y				y			y	y		y	
2011	Gray	E	Qn				y	y				y	y	y		
2003	Hendrikse & Veerman	T	na			y			y			y	y			
2009	Nilsson & Hendrikse	T	na	y	y	y					y	y	y			
2008	Carr et al	T	na	y								y	y		y	y
2009	Gijselincx	E	Qn						y			y	y			y
2018	Nilsson	T	na		y							y	y		y	y
2004	Birchall & Simmons	E	QI	y							y	y	y		y	
2012	Barraud-Didier et al	E	Qn		y	y			y			y	y			
2018	Puusa et al	E	Qn	y	y	y						y	y			
2010	Bhuyan	E	Qn									y	y	y	y	y
1990	Gray et al	E	Qn	y								y				y
2019	Barraud-Didier et al	T	na			y			y			y				
1999	Fulton	T	na		y								y		y	y
1995	Fulton	T	na		y								y		y	y

Table 5. 1: Engagement Attributes with Linkages

Loyalty and Commitment

Loyalty can be explained as members' sentiment to continue supporting their cooperative. It is sometimes described as the solidarity they feel with the other members and the collective, the cooperative. Loyalty has been positively linked to cooperative financial performance (Feng et al., 2011; Mazzarol et al., 2012; Nilsson, 2009) as it gives the member confidence in the cooperative sustainability. Furthermore, it is stated that cooperative protection from large retail and trading organisations is crucial (Feng et al., 2011). When the member can identify with their cooperative, loyalty is positively affected (Mazzarol, 2012; Jussila, 2012) and the member is less likely to search for alternatives. Furthermore, member loyalty is also positively linked to the relationship they have with their governing team, the directors (Barraud-Didier et al., 2019; Mazzarol, 2012; Xiang & Sumelius, 2010; Carr, 2008). Additionally, other research found that directors of a cooperative are different to that of an IOF as they need to have a relationship with their members (Barraud-Didier et al., 2019) and the members would like almost daily contact with their directors. Mazzarol et al. found in 2012 that the key to loyalty can be found in the emotional connection that members have with the cooperative.

Other studies found that there is a positive relationship between emotional connection and affective commitment which is a critical ingredient in member loyalty (Apparao et al., 2019; Mazzarol et al., 2012, 2019; Puusa et al., 2018). Meyer and Allen (1991) argue that psychological commitment, has three discrete elements being affective commitment (want), continuance commitment (requisite), and normative commitment (contract) to maintain employment in an organisation, this can be applied to the commitment that members have for their cooperative. Many studies found that loyalty was strongly linked to the communication by the cooperative and the information sent out to their members (Jussila et al. 2012; Mazzarol et al., 2019; Xiang & Sumelius, 2010; Puusa et al., 2018; Birchall & Simmonds, 2004). Other research has shown the link between loyalty and satisfaction (Carr et al., 2008; Bhuyan, 2007) which can be looked at from both perspectives; when a member is satisfied, there is a positive link to loyalty; and when a member is loyal, there is a positive link to satisfaction. Loyalty has been linked to member education and training supplied by the cooperative; the more education and training the cooperative gives to its members the higher the loyalty ratings are (Jussila et al., 2012; Xiang & Sumelius, 2010). Finally, other research has

found that size and geography play an important role in member loyalty (Jussila et al., 2012; Feng et al., 2016). The research from both authors found that loyalty was negatively impacted as the cooperative grew large and spread out geographically.

Trust

Trust and loyalty have been found to be strongly linked in research (Barraud-Didier et al. 2019; Puusa et al., 2018). The more trust the member has in the cooperative leadership, management, operations and other members, the more loyalty he/she will have with the cooperative. Trust not only affects member loyalty but also affects the commitment that the member has for the cooperative (Puusa et al., 2018). Cooperative commitment is represented by the Board of Directors in a cooperative with a link between trust and the board of directors found in research (Osterberg & Nilsson, 2009; Barraud-Didier et al., 2019). Furthermore, if the members do not trust their board of directors, they will not trust the cooperative decisions (Barraud-Didier et al., 2019). Similarly, satisfaction is linked to trust; if a member were satisfied, it was likely they would trust their cooperative (Nilsson et al., 2009). The size of a cooperative has been found to have a negative impact for a members' trust in their cooperative, the larger the cooperative, the less trust the members have (Nilsson et al., 2009; Hogeland, 2006; Feng, 2016). Additionally, age of the member was also found to be a factor in trust in a cooperative (Osterberg & Nilsson, 2009) where it was found that members over the age of 60 had less trust in the board of directors and the cooperative than younger members. Barraud-Didier et al. in a research paper in 2016 found that trust and participation are linked meaning that the more trust a member had in their cooperative, the more likely they were to involve themselves in the governance. Furthermore, communication was found to be crucial in maintaining and increasing member trust (Xiang & Sumelius, 2010). Finally, it was found in other research (Osterberg & Nilsson, 2009) that trust was linked to democratic control, the more the member felt they had democratic control, the more trust they had in their cooperative.

Ideology/ Motivation

Research into aspects that keep members at their cooperative found that Ideology does not play any role (Feng, 2011). The members are part of the cooperative as they can get the price they need and use the cooperative to negotiate better prices in the market collectively. In

other research Fulton (1999) found that ideology appears to be breaking down. The author stated that historically, member commitment was supported by cooperative ideology; however, this was no longer a necessary ingredient of member commitment. The motivation that farmers have for joining a cooperative was found to be *Wesenwille* (essential will) being part of *Gemeinschaft*, which is the interaction between members in the cooperative case, according to Nilsson & Hendrikse (2009).

Relationship/ Engagement

Relationship in this context is to the relationship between members; the members and the management; and the members and the board of directors and their commitment to the cooperative, it is not used from the analysis of data perspective. Mazzarol et al. (2012) highlighted the importance of the relationship that the cooperative organisation has with its members. Furthermore, the authors stressed that the board need a different relationship with their members when comparing it to the relationship an IOF has with its shareholders. It was found that Directors have additional responsibilities in building and maintaining their relationship with their members. In later research by the same authors (Mazzarol et al., 2019), it was stated that cooperative organisations need to invest in the relationship that the members have in their cooperative in order to protect their supply. Kaswan (2014) concentrated on the interaction part of the member relationship stating that he found the number of and quality of interactions was inversely proportional to the size and complexity of the cooperative organisation. Furthermore, in another study on cooperative organisations (Hendrikse & Veerman, 2003), the authors suggested that when a cooperative reached the last stage in the cooperative lifecycle (see Cook, 1995, 2018) whereby they were restructuring the cooperative, the new organisation should invest in creating relationships built on confidence and the understanding of their members. When examining stakeholder-management research, Gijssels (2009) found that stakeholder management could be hindered by the lack of relationship that the board of directors and the management had with their members. The author went on to point out that without a good relationship with their members, it was possible the cooperative might lose its cooperative advantage, and the members would view the cooperative as they do other IOFs. The degree of involvement was

further linked to the relationship in that the members have to have a high degree of trust in their cooperative in a study of French farmers (Barraud-Didier, Henninger & Anzalone, 2019). Directors are seen as the link between the members and their cooperative was found in research on governance participation of the farmers (Barraud-Didier et al., 2012), the authors stress that the cooperative directors' role is more complex than that of an investor-owned entity and the requirement is for directors to have almost daily contact with their members in order to gain their trust.

Community

In cooperative research looking at large complex cooperatives, the research found that the cooperative community between members was threatened by cooperative expansion (Hogeland, 2006). Again, other research highlighted the multifaceted role that members have in a cooperative (Mazzarol, 2019) stressing that they are part of a community which is very important for a loyal member base. Kaswan (2014) found that cooperatives were often used to protect communities from traditional development initiatives which can often leave the community worse off than before. In a study that looked at cooperative success factors, the author (Carr, 2008) found that one of the success indicators was the provision of support that the cooperatives gave in the local communities.

Engagement Summary

The literature review has taken the view that there are “hard” and “soft” member aspects, the “soft” aspects above have indicated that there are certain aspects that are linked to many of the “hard” aspects. The below diagram depicts the other linkages found in the literature. The left-hand side of the diagram depicts the area that was discussed in this section, namely, Engagement as it is defined within this thesis. The right-hand-side of the diagram depicts the other influencing factors – the arrows show that there are relationships between Engagement and the items on the right.

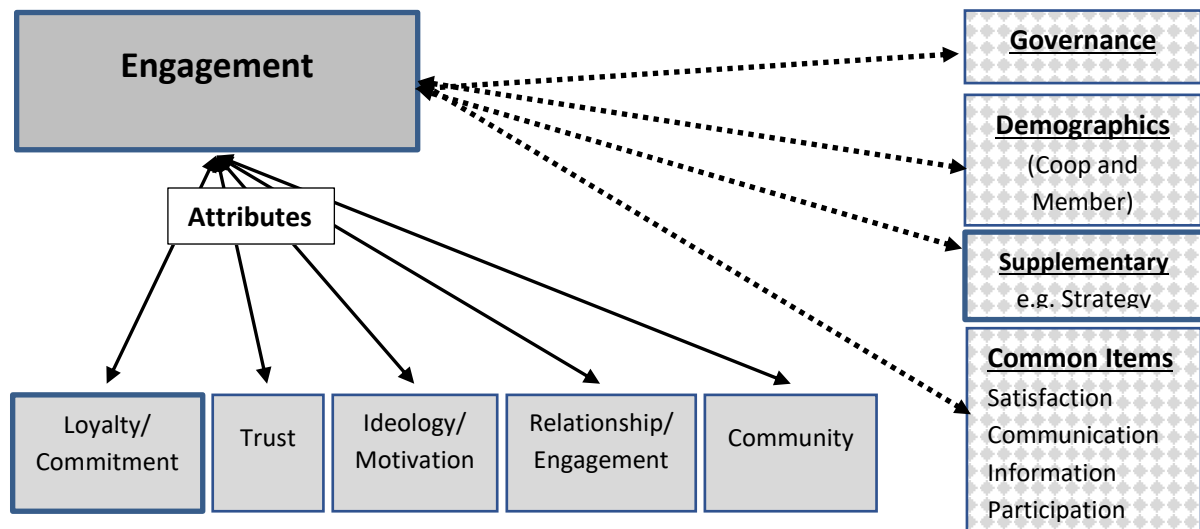


Figure 5. 2: Representation of “Soft” Member Characteristics

5.2.2 Common Attributes

There are attributes in the literature that have placed the attributes in Engagement, while in other research has been more aligned to that of Governance. These attributes were labelled common and discussed hereunder. The table below depicts the attributes that were found for “Common” attributes in the literature.

Author/s	Year	Research basis: Empirical/	Qualitative (QI)/ Quantitative (Qn)	Engagement	Satisfaction	Transparency/ Communications/ Information	Participation/ Involvement	Gov	Member	Coop Demographics	Supplementary
Barraud-Didier et al	2012	E	Qn	y			y	y			
Barraud-Didier et al	2019	E	Qn	y			y	y		y	
Barraud-Didier et al	2019	T	na	y	y		y				
Bhuyan	2007	E	Qn	y	y	y		y		y	y
Bhuyan	2010	E	Qn				y	y	y	y	y
Bijman et al	2012	E	QI				y	y		y	y
Birchall & Simmons	2004	E	QI	y		y	y	y		y	
Carr et al	2008	T	na	y	y			y		y	y
Chechi et al	2013	E	Qn	y			y	y	y	y	
Dakurah et al	2005	E	Qn	y	y		y	y	y	y	y
Feng et al	2011	E	Qn	y		y		y	y	y	y
Feng, et al	2016	E	Qn	y	y	y	y	y	y	y	y
Gijselinx	2009	E	Qn	y		y	y	y			y
Gray	2011	E	Qn	y	y		y	y	y		
Gray & Kraenzle	1998	E	Qn	y	y		y	y	y	y	
Gray et al	1990	E	Qn	y			y				y
Hendrikse & Veerman	2003	T	na	y		y		y			
Hueth & Reynolds	2009	T	na			y	y	y			
Jussila et al	2012	T	QI	y		y		y	y	y	
Kalogeras et al	2009	E	Qn				y	y		y	y
Kaswan	2014	T	na				y	y		y	
Liebrand, Ling	2014	E	Qn		y	y		y		y	
Mazzarol et al	2012	E	Qn	y				y		y	
Mazzarol et al	2019	E	Qn	y		y		y		y	
Nilsson	2018	T	na	y			y	y		y	y
Nilsson & Hendrikse	2009	T	na	y			y	y			
Nilsson, Kihlen, Norell	2009	E	Qn	y	y	y	y	y		y	
Österberg, Nilsson	2007	E	Qn	y	y		y	y	y	y	
Pozzobon & Zylbersztajn	2012	E	QI				y	y		y	
Puusa et al	2018	E	Qn	y	y		y	y			
Smith et al	2018	E	Qn			y	y	y			y
Xiang & Sumelius	2010	E	Qn	y	y	y	y	y	y	y	

Table 5. 2: Common Attributes (to Engagement and Governance)

Satisfaction

Satisfaction is common to both the sentiment section and the governance section in literature. In extensive research covering the topic of member satisfaction, the authors found that member satisfaction was strongly linked to satisfaction with the cooperative management (Liebrand & Ling, 2014; Bhuyan, 2007) and the cooperative milk pricing policies (Liebrand & Ling, 2014). Furthermore, the authors found that there were strong correlations between member satisfaction and satisfaction with the costs of the cooperative. The board of directors was linked to satisfaction for members in several empirical and theoretical studies (Liebrand & Ling, 2014; Nilsson et al., 2009; Gray & Kraenzle, 1998; Bhuyan, 2007). Member participation was linked to satisfaction in many studies (Xiang & Sumelius, 2010; Gray & Kraenzle, 1998, Dakurah et al., 2005; Gray, 2011; Carr, 2008; Barraud-Didier et al., 2019), where the research considered the importance of satisfaction in the participation of the member in cooperative activities. Other research found that the size and complexity of a cooperative diminished member satisfaction when the cooperative got overly large and complex (Nilsson et al., 2009; Feng et al., 2016). Furthermore, the strategy of a cooperative was negatively linked to member satisfaction in other studies (Carr, 2008; Gray, 2011) where it was found that, for example, an expansion strategy was linked to the complexity of the cooperative operation which inevitably resulted in lower member satisfaction. Loyalty was linked to satisfaction with some research finding that the link was positive when satisfaction was high (Bhuyan, 2007), yet other studies found that when loyalty was low so was satisfaction (Puusa et al., 2018). Finally, satisfaction has been linked to cooperative longevity in research (Barraud-Didier et al., 2019; Carr, 2008), the higher the satisfaction, the higher the probability of cooperative longevity.

Transparency, Information, Communication

Transparency was found to be positively correlated to both member participation (Cook, 2018) and with the perception of member inclusiveness in cooperatives (Smith et al. 2018). Information was linked to participation in yet another study (Nilsson et al., 2009), the more information a member received the more participation a member had in their cooperative. Furthermore, the dissemination of information by the cooperative to the members can, in some ways, negate the effects of member-conflict when looking through a member heterogeneity lens was found in other research (Kalogeras et al., 2009). Again, the lack of, or

poor, information on cooperative activities was found to contribute to member exit (Feng et al., 2011). Good information on the cooperative activities was positively correlated to member satisfaction (Feng et al., 2016). However, Birchall and Simmons (2004) found the potential for both too much and too little information; both could impact loyalty and member satisfaction. Finally, Hansmann (1999) states that information is crucial in order to reduce costs and increase the effectiveness of management monitoring in a cooperative.

Participation and Involvement

Member participation was found to be contingent on several factors. For instance, more democratic control resulted in higher participation in governance (Osterberg & Nilsson, 2009; Gray, 2011). However, it was stressed that the most important factor in participation was a belief in the members' participation in governance. Participation has been linked to commitment in other studies, the higher the commitment, the higher the participation and vice versa (Xiang & Sumelius, 2013; Barraud-Didier et al., 2019). Even demographics can play a part in a member's participation (Gray, 2011), for example, Osterberg and Nilsson (2012) found that older members participation (>60 years) was positively linked to governance in a cooperative whereas Bhuyan (2010) found that farm size was not linked to participation in any way. However, the education of the member was a factor in participation where more educated members were more likely to participate in a cooperative (Bhuyan, 2010). Again, it was found that economic motivation was a driver for a member's participation (Cechin et al., 2013) while the same author found that economic motivations were not linked to a member's willingness to serve on either the board of directors or a committee. Trust is a factor in member participation was found in another study (Barraud-Didier et al., 2012, 2019). If a cooperative is performing well, the participation was likely to be higher was found in a study linking cooperative financial performance to participation (Bijman et al., 2012). Other factors that improve participation are adherence to cooperative principles (Gray, 2011), low heterogeneity (Pozzobon & Zylbersztajn, 2012) and size of cooperative which can be linked to heterogeneity (Gijssels, 2009). Low involvement has been linked to a lack of trust and solidarity (Nilsson, 2009). Gray and Kraenzle (1998) found that members involvement was linked to the members' view of their leadership. As with participation, good member

involvement has been linked to smaller cooperatives (Feng, 2016). Finally, Bhuyan (2007) found that cooperative survival is linked to good member participation.

“Common” Summary

The common items that relate to member perceptions or their tangible governance involvement are contingent on a number of factors including high rates of satisfaction, high participation in both the governance of the cooperative as well as the information, communication and transparency of the cooperative organisation including the directors and the management. Larger cooperatives are seen to have more challenges regarding these “common” attributes.

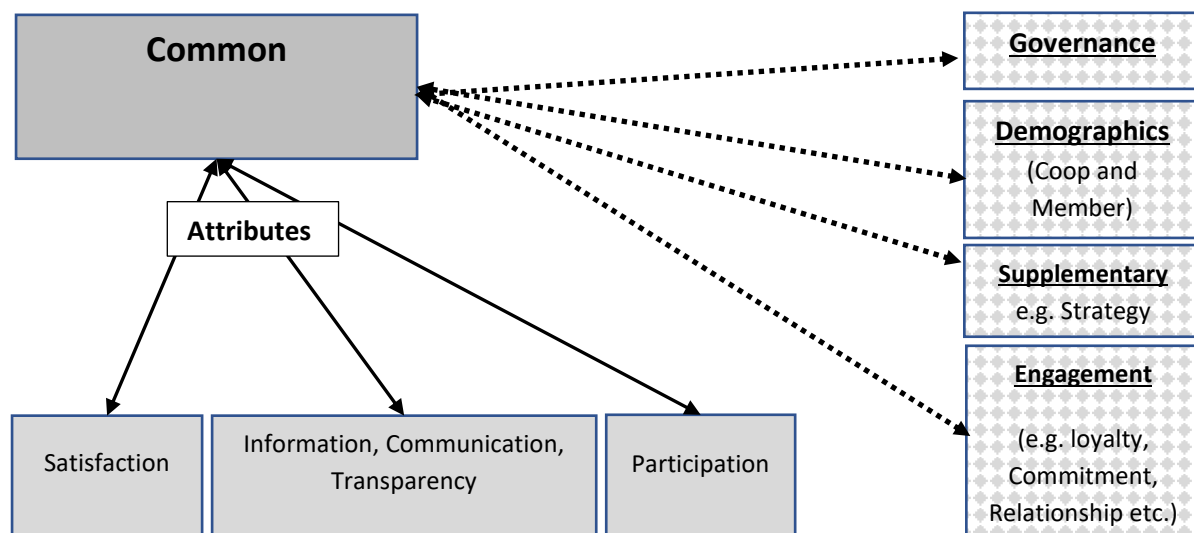


Figure 5. 3: Representation of “Common” Member Characteristics

5.2.3 Governance Attributes

The previous research has already shown that there are tangible links between member perception and sentiment (Engagement) to the health of the cooperative in terms of governance. In this next section, the research and linkages between Governance are examined, there is much literature on cooperative governance; however, this review of the literature concentrates on the empirical (mainly) research looking through the member lens once again. Table 5.3 below presents the appropriate literature that was analysed for this broad section.

Author/s	Year	Research basis: Empirical/Theoretical	Qualitative (QI)/ Quantitative (Qn)	Engagement	Common	Governance	Principles and the Law	Monitoring/ Reporting/ Measurement	Member Democracy	Member Ownership	BoD/ Management/ Education	Contracts	Member demographics	Coop Demographics	Supplementary
Österberg, Nilsson	2007	E	Qn	y	y	1			1		1		y	y	
Nilsson, Kihlen, Norell	2009	E	Qn	y	y				1		1	1		y	
Xiang & Sumelius	2010	E	Qn	y	y				1	1	1	1	y	y	
Cechin et al	2013	E	Qn	y	y	1			1		1		y	y	
Gray & Kraenzle	1998	E	Qn	y	y	1	1		1	1	1		y	y	
Jussila et al	2012	T	QI	y	y				1	1	1	1	y	y	
Barraud-Didier et al	2019	E	Qn	y	y	1					1			y	
Bhuyan	2007	E	Qn	y	y				1	1	1	1		y	y
Feng et al	2011	E	Qn	y	y				1	1			y	y	y
Dakurah et al	2005	E	Qn	y	y						1	1	y	y	y
Feng, et al	2016	E	Qn	y	y				1	1	1		y	y	y
Mazzarol et al	2012	E	Qn	y						1	1			y	
Mazzarol et al	2019	E	Qn	y	y					1	1	1		y	
Gray	2011	E	Qn	y	y		1		1	1			y		
Hendrikse & Veerman	2003	T	na	y	y				1	1	1	1			
Nilsson & Hendrikse	2009	T	na	y	y	1		1	1		1	1			
Carr et al	2008	T	na	y	y	1			1		1	1		y	y
Gijssels	2009	E	Qn	y	y	1	1		1		1				y
Nilsson	2018	T	na	y	y			1	1	1		1		y	y
Birchall & Simmons	2004	E	QI	y	y			1	1	1	1	1		y	

Barraud-Didier et al	2012	E	Qn	y	y					1				
Puusa et al	2018	E	Qn	y	y				1					
Bhuyan	2010	E	Qn	y	y					1		y	y	y
Gray et al	1990	E	Qn	y	y									y
Barraud-Didier et al	2019	T	na	y	y									
Fulton	1999	T	na	y				1	1	1			y	y
Fulton	1995	T	na	y		1			1				y	y
Pozzobon & Zylbersztajn	2012	E	QI		y	1		1	1		1		y	
Liebrand, Ling	2014	E	Qn		y				1	1	1		y	
Kalogeras et al	2009	E	Qn		y	1		1	1		1		y	y
Kaswan	2014	T	na		y		1		1		1	1	y	
Hueth & Reynolds	2009	T	na		y				1	1	1			
Smith et al	2018	E	Qn		y		1			1	1			y
Bijman et al	2012	E	QI		y	1	1		1		1	1	y	y
Grashuis	2018	E	QI			1	1							y
Iliopoulos	2018	T	na			1		1	1	1	1		y	
Chaddad and Iliopoulos	2012	E	QI			1		1	1	1	1	1		
Hansmann	1999	T	na					1	1	1			y	y
Holmstrom	1999	T	na							1			y	
Nilsson	1999	T	na			1	1		1	1			y	
Grashuis & Cook	2018	E	QI						1	1			y	
Hueth & Marcoul	2015	T	na					1	1	1		1		
Fulton & Hueth	2009	E	QI					1				1	y	
Benos et al	2018	T	na					1			1		y	
Grashuis	2019	E	Qn										y	y
Reynolds et al	1997	E	Qn				1		1		1		y	y
Harte	1997	E	QI						1				y	
Holmstrom	1999	T	na							1		1	y	
Hogeland	2006	E	Qn											y
Hind	1997	E	QI						1					
Hendrikse	2010	T	na								1	1		
Cook	2018	T	na			1			1				y	
Feng & Hendrikse	2011	T	na			1								
Iliopoulos & Hendrikse	2008	T	na			1				1			y	y
Bijman	2018	E	Qn			1	1						y	
Iliopoulos & Valentinov	2018	T	na				1			1			y	y
Grashuis	2018	T	QI				1		1	1			y	y
Carney et al	2015	T	na										y	
Chaddad & Cook	2004	E	QI						1	1		1	y	

Iliopoulos	2015	E	QI			1		1	1	1				y	
Birchall	2017	E	QI			1	1	1	1	1	1	1	y		
Nilsson & Ohlsson	2007	T	na				1								y
Eversull	2011	E	Qn					1						y	

Table 5. 3: Governance Attributes

Governance

Research found that trust impacted participation which impacted governance in a cooperative (Barraud-Didier et al., 2012). Other research by the same author similarly found that there was a positive link between trust and governance (Barraud-Didier et al., 2019). Furthermore, research by Osterberg and Nilsson (2009) found that the most important aspect of participation was that members had a voice in the governance of their cooperative. Other research found a link between commitment and member governance (Barraud-Didier et al., 2019). Many studies have considered the large cooperative organisation finding that large cooperatives encounter challenges with governance (Feng et al., 2012) and the governance structures of cooperatives do not adapt sufficiently when they get larger, causing misalignment between the strategy and the governance structure (Nilsson, 2018). Another study had a similar finding in that internationalisation or growth required changes to the internal governance structures which did not always occur and could negatively impact member governance. According to Chaddad and Iliopoulos (2012), there have been various governance structures that have been adopted in various parts of the world. In the literature, the authors proposed a continuum of governance from member control to that mirroring an IOF. The study questioned Hansmann's (1996) hypothesis that management opportunity would remain negligible when the members had delegated full control and decisions rights to management.

Principles and the Law

There are main two sets of cooperative principles; being the International Cooperative Alliance set of seven principles (ICA, 2019), and the United States Department of Agriculture set of three principles (USDA, 2019). While they seem different, they both find their roots in the Rochdale principles which scholars see as the genesis of the modern cooperative movement (The Cooperative Heritage Trust, 2019). Research has found that participation was

found to be related to the member belief in cooperative principles (Gray & Kraenzle, 1998). The authors went on to state that cooperatives should understand the importance of the cooperative principles. In other research, Gray (2011) stated that in his previous research participation was linked to the cooperative principles and members were generally supportive of the cooperative principles with the exception of the Open-Entry principle. Kaswan (2014), in his research, stated that democracy in a cooperative was dependant on the alignment the cooperative has with the cooperative principles, in particular the one-member-one-vote democratic principle. In other research, Gijssels (2009) found that the institutional relationship between members and their cooperative cannot be fully realised without adherence to the cooperative principles. In a study on the effects of the law on cooperatives, it was found that most national laws based on cooperative principles allowed for a flexible internal governance mechanism (Bijman et al., 2012). Innovations in the principles and law for cooperatives in America yielded the Limited Cooperative Association (LCA) which was seen to be a new type of cooperative structure based on differing cooperative principles; however, a quantitative study found that there were very few registrations of these new types of cooperatives and additionally the number of agricultural registrations were even fewer (Grashuis, 2018).

Monitoring, Measurement and Reporting

How do the cooperative members track the functioning of their cooperative and their elected representatives? This section examines the measurements and monitoring that have been proposed or studied within cooperative literature. Holstrom (1999) states in his research that cooperatives are at a disadvantage in terms of monitoring, the cooperative being a private organisation is usually not listed on stock exchanges, and thus under the watchful eyes of regulators, stock market compliance officers, and analysts in general. He sees this a weakness. Again, in other research (Nilsson & Hendrikse, 2009), the authors made the point that as cooperatives expand, members find it increasingly difficult to monitor the management. In other research by Nilsson (2018), the author states that as the cooperative grows incrementally, the monitoring of the management process does not change and due to member passivity and it is likely that the monitoring becomes ineffective. Democratic costs are related to monitoring costs was found in a study (Pozzobon and Zylbersztajn, 2012) where

the authors point out that agency costs are directly related to monitoring costs. In another research study (Carr et al., 2008), the authors suggest that members turnover should be monitored by the cooperative and these statistics made available to the membership regularly in order for the collective to understand growth limitations. In a conference paper, Iliopoulos (2018) presented a paper where he links member heterogeneity to the challenges of large cooperatives to monitor their management effectively.

Cooperative overall performance measurement has also been a topic of research with Benos (2018) stating that despite much research being completed on cooperative financial and non-financial performance, there have been few studies examining the process of measurement. In other research, it was postulated that commitment could be one such measure which would indicate the relative success of a cooperative (Osterberg and Nilsson, 2009) and in yet another research publication, participation was proposed as a measure of cooperative success (Gray and Kraenzle, 1998). Both commitment and participation were suggested as correct measures of cooperative success (Barraud-Didier et al., 2019) while Fulton (1999) states that member commitment is what differentiates a cooperative from an IOF.

Examining reporting, Birchall (2017) found in his research conducted in the United Kingdom that some cooperatives are, as part of their governance structure review, implementing measures of success. Fulton and Hueth (2009) found that some cooperative failure could be due to financial misreporting and fraud; however, this was not unique to the cooperative organisational structure. In a study on monitoring and measurement of a cooperative, it was found that cooperative reporting concentrated on the “corporate” metrics and excluded, to the cooperative’s detriment, membership metrics. Chaddad and Iliopoulos (2012) analysed several agricultural cooperatives, finding that switching to alternative governance models implied a trade-off between monitoring and measuring the management versus the cost of making decisions. They further state that there were five distinct factors involved that this trade-off was dependant on namely: the degree of homogeneity of the members' transactions and preferences; the costs that would be incurred as a result of balancing different member’s interests; the efficiency of the board of directors and how effective it was; and implementing measurements that would track overall cooperative performance.

Member Democracy

Member democracy is served by exercising a vote and ensuring all members are treated equally. Osterberg and Nilsson (2009) found that age was positively linked to member democracy, explaining this could be due to older members having more cooperative ideology than younger ones. Size was listed as a negative factor in multiple research papers (Nilsson et al., 2009; Kaswan, 2014; Birchall and Simmons, 2004; Birchall, 2017), as cooperatives grow their size is negatively associated with member democracy. Heterogeneity was also found to be negatively linked to member democracy and the exercise of member voting (Osterberg and Nilsson, 2009; Gray and Kraenzle, 1998) which supports the previous assertion by researchers about size as this is found to be linked to heterogeneity. Members' involvement in the democratic process in a cooperative was found to be one of the most substantial factors in the willingness of members to serve on the board of directors (Osterberg and Nilsson, 2009). In Brazilian research, the authors found that a member's primary motivation to be involved in cooperative democracy and voting was due to their economic motivation (Cechin et al., 2013). A factor in member participation in voting was also found to be linked to equality in the cooperative and more specifically, one-member-one-vote (Gray and Kraenzle, 1998). Furthermore, it was found that one of the success factors in a cooperative was causally linked to democratic control and the carrying out of member democracy.

Member Ownership

Central to traditional cooperatives is the member-ownership requirements. However, other forms of ownership have been attempted with not very much success. The Limited Cooperative Association in America is an ownership structure that allows external investors to share ownership and therefore control with the members (Grashuis, 2018). The author found there was little success in this, and no agricultural LCA's are still operating at the time of this research. Another cooperative form that was popular in the early 2000s was the New Generation Cooperative (NGC). The NGC has closed membership and has high equity entrance costs for a member. Many of the NGC's have since been either converted to other organisational forms or liquidated for non-unique cooperative problems (Grashuis and Cook, 2018). The authors state in their research that they found that many of the conversions were carried out as a result of equity or liquidity problems which indicated a limit to their longevity.

Research into traditional cooperatives found that ownership in a cooperative was contingent on how future technology will affect how the two competing components of ownership interact, the costs of contracting and the costs of control (Hansmann, 1999). In other research, Gray and Kraenzle (1998) found a positive link between ownership and participation, and in yet another research paper, it was found that affective commitment was positively correlated with ownership (Jussila et al., 2012). In a study into affective commitment, it was found that a member had many roles with ownership being considered important (Mazzarol et al., 2012). In his book *“Ownership of Enterprise”* Hansmann (1996) the author states that if ownership is problematic due to changes in the cooperative, exit may be a more attractive choice for the member rather than voice. Iliopoulos (2015) found there were nine different ownership models within traditional cooperatives, each one slightly different. In another study, researchers found that when cooperatives expanded and take on external investors, this can weaken ownership rights (Chaddad and Cook, 2004). Iliopoulos (2018) presented an ownership continuum as per the below diagram:

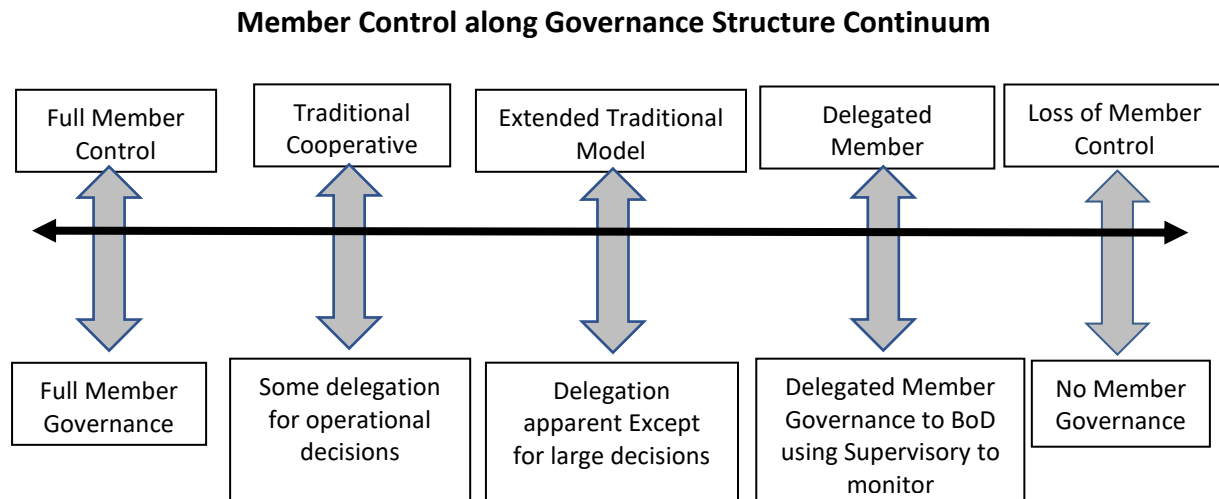


Figure 5. 4: Ownership Rights (Adapted from Chaddad and Iliopoulos, 2012)

Iliopoulos (2018), using case studies of agricultural cooperatives around the world, found that there was a continuum of governance, and therefore, decision rights. On the one side was full member control, although the author found very few of these, and on the far side, a total loss of control which aligns with IOFs.

Member Influence and Voice

Member *Voice* can be considered as the right to be heard in a cooperative. In the same way, influence in a decision implies being heard and having a *voice*. This will, of course, be subject to the specific cooperative democracy rules as far as action being taken once the member has been heard. Research has found that the loss of member *voice and influence* in a cooperative can result in member exit (Bhuyan, 2007; Holmstrom, 1999; Feng et al., 2011). Other research found that member *voice and influence* is positively linked to satisfaction (Liebrand and Ling, 2014) and participation in their cooperative (Barraud-Didier et al., 2019; Nilsson et al., 2009; Gray, 2011). Furthermore, Nilsson (2018) postulates that cooperative failure can be traced back to diminishing member influence when the influence moves from members to non-member investors. Other research found that large complex cooperatives caused member influence to contract over time (Nilsson et al., 2009; Feng et al., 2016). Birchall (2017) states that there are three authorities required for effective cooperative governance, and one of these essential ingredients is member-voice, the other two are representation and expertise. Osterberg and Nilsson (2009), found that the board of directors would secure more support from their members if the members believed that they could influence the decision and that their *voice* would be heard.

Board of Directors, Education, and Management

A board of directors is essential in the interface between member democracy and the cooperative. Research has found in terms of trust, that members over 60 years old had less trust in the Board of directors than younger members (Osterberg and Nilsson, 2009); furthermore, trust in a cooperative diminished with cooperative size (Nilsson et al., 2009); However the more the member is involved in the cooperative, the more they trust the Board of Directors (Nilsson et al., 2009) and a members satisfaction is related to the satisfaction they have in their board of directors (Liebrand and Ling, 2014). Having more trust in the board will also result in more support for a decision that has to be made regardless of whether they agree or not with the decision (Nilsson, 2009). It was found that the relationship that the director has with the members is different from that of an IOF (Mazzarol et al., 2012). Furthermore, the relationship that a director has with the members is suggested as having to

be far more profound and broader than that of an IOF (Mazzarol et al., 2012; Barraud-Didier et al., 2019). Barraud-Didier et al. (2012) suggest that directors should be in almost daily contact with their members. A study conducted in Brazil found that economic motivation was not related to the willingness to serve on a board of directors (Cechin et al., 2013). Having members serve on a board of directors is a factor in the success of a cooperative was found in another research paper (Carr et al., 2008). Other research found that cooperative financial performance is affected by board composition. Education plays a vital role in a member's willingness to participate in cooperative governance and in particular, the Board was found by another research paper (Xiang and Sumelius, 2010). Additionally, the same research found that a member's education level influenced their willingness to participate as a board member of the cooperative. Again, in other research, it was found that member participation was linked to the cooperatives' willingness to educate its members (Gray and Kraenzle, 1998; Jussila et al., 2012). Finally, it was found that members' education was an important factor in a member supporting his or her cooperative (Dakurah et al., 2005).

Members own the cooperative; however, few if any, members can be intimately involved in every detail of the operation. Thus, they appoint a board of directors which in turn appoints a management team. Hogeland (2006) points out that as the cooperative grows in size and complexity, more heterogeneity is apparent, which can lead to member-conflict, and as a result management control grows. The author found that as management control increased so too, in equal proportion, does the members control diminish and with this, the trust in the cooperative, which leads to a shrinking member-base. Another study (Nilsson et al., 2009) found that the more that members are satisfied with their cooperative, the more trust they have in the management. Bhuyan (2007) found that dissatisfaction with cooperative management led to lower member loyalty. Furthermore, the same research found that the likelihood of member exit was higher when their input was not valued by the management.

"Governance" Summary

The Governance attributes that apply to members are represented in Figure 5.5 below. These attributes include Principles and the Law; Monitoring and measurement of the management which include the Board of Directors; Member democracy including voting rights; ownership and property rights; *voice and influence* meaning members are heard, and their *voice* is translated into action; and the board of directors. Larger cooperatives are seen to have more governance challenges than their smaller counterparts.

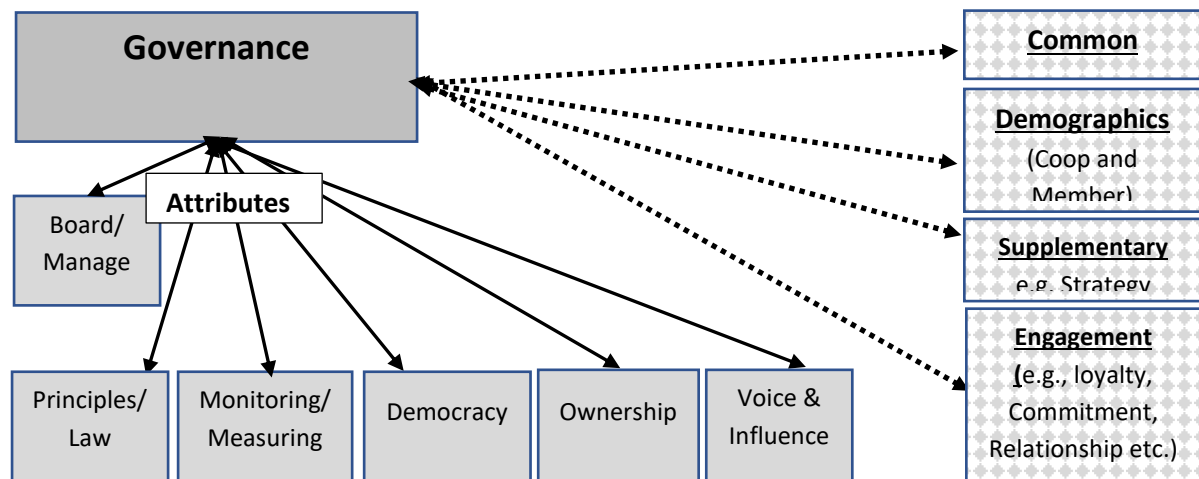


Figure 5. 5: Representation of Governance Member Characteristics

5.2.4 Demographic and Supplementary Factors

Demographics are said to affect both member Engagement and Governance. This section examines the linkages and relationship between the two types of demographics; that of member demographics, and cooperative demographics that affect member sentiment and member governance. Member, Age, farm size, and profitability are analysed in relation to the aspects mentioned above of membership followed by how cooperative demographics of size, financial and non-financial performance, heterogeneity, debt or leverage, and reasons for an exit, affect the general operation.

Member Demographics

Member demographics can have a noticeable effect on the sentiment of members, especially when examining agricultural cooperatives. For example, member age is a factor in cooperative participation; the older the member is, the more likely he will take an active approach to participation (Osterberg and Nilsson, 2008; Gray, 2011). However, influence costs are higher in older members (Iliopoulos and Hendrikse, 2008). Furthermore, age was found to be a factor in commitment, where researchers found a negative link between age and commitment (Feng, 2011; Jussila et al., 2012). Nevertheless, other research, analysing empirical data, found that there was no statistically significant relationship (Osterberg and Nilsson, 2009) between age and commitment. Age was additionally found to be negatively linked to trust for the board of directors (Osterberg and Nilsson, 2009); the older members had less trust in their directors.

So too, can geography influence a cooperative members sentiment and governance choices. Research has shown that the compactness, or geography, of members, affects the member-identity, where more dispersed cooperatives suffer from lower member commitment (Jussila et al., 2012). In empirical research conducted in Sweden, the authors found that smaller cooperatives, in terms of member proximity and geography, had higher social capital (Apparao et al., 2019; Feng et al., 2016). Social capital in this paper was defined as a combination of Involvement, Trust, Satisfaction, and Loyalty. The same paper found that the larger cooperatives were spread out geographically, and this resulted in complexity and more heterogeneity amongst members which gave rise to lower social capital.

Profit was also found to be a factor in a member's decision-making behaviour. Bhuyan (2010) found that the degree of solvency was a factor in a member's decision to use a cooperative. Satisfaction was positively linked to farm profitability in another study (Osterberg and Nilsson, 2009) so too in the same paper it was found that farm profitability was linked to both trust and commitment but found there was no relationship between the profitability of the farm and the trust the member has in the board of directors. Again, in other research conducted in Brazil, it was found that economic motivation, which is a contributor to farm profitability, was a key driver or participation of members (Cechin et al., 2013).

Cooperative Demographics

Cooperative demographics affect how members feel and participate in their cooperative according to research. For instance, Grashuis (2019) found that cooperative age was a factor in the survival of the cooperative and Hind (1976) found that the orientation to more corporate values was linked to cooperative age where member values were diminished over time in favour of the corporate values. In a study conducted in America, it was found that governance structures were affected by the geography of the members (Reynolds et al., 1997). Often cooperatives would split their geography into regions for efficiency reasons, especially large cooperatives. Grashuis (2019) and Bonus (1986) found that as cooperatives grew by geographical expansion, this resulted in lower collective social capital (Apparao et al., 2019) and more heterogeneity and could contribute, down the line, to eventual exit. Again, in other research, Birchall (2017), proposed a regional or district voting system in order to maximise the representation of the members' interests.

Cooperative financial performance has been found to be linked to a number of member attributes. Research found that members assess the management of cooperative based on specific metrics; financial performance is one of them (Hansen et al., 2002). Again, participation in the governance of a cooperative was positively linked to cooperative financial performance in another study (Gray and Kraenzle, 1998). Kalogeras et al. (2009) noted that cooperatives were subject to less scrutiny than IOFs, and as a result, their financial performance was seldom analysed. Hind (1997) stated that performance measures of a cooperative should not be limited to just financial ratios but should include membership metrics as well, for example, participation levels and satisfaction. In other research, it was

found that members assess the cooperative as being competent by looking, amongst other metrics, at the cooperative financial performance (Dakurah et al., 2005). In the cooperative lifecycle Cook (2018) postulates that the cooperative, in phase 2 of its lifecycle, defined what the measurement should be for cooperative health; however, these metrics were rarely reviewed. The financial performance of a cooperative was moreover linked to board composition and member participation in another study (Bijman et al., 2012). Fulton (1999) similarly postulated that there would be a strong linkage between member commitment and cooperative financial performance. Finally, Benos et al. (2018), in defining measurements for cooperative performance, found that most cooperatives concentrated on business financial and efficiency measurements for cooperative financial performance, leaving out the very important member view on non-financial performance.

The use of member equity was always used for a cooperative to satisfy capital requirements; however, a trend has been found that debt is used more frequently (Eversull, 2011). Although the measures of leverage and liquidity were not found as being a significant measure of cooperative survivability (Grashuis, 2019), it was found in the same research that cooperatives with strong liquidity have a higher survival rate. It was noted in other research (Grashuis and Cook, 2018) that when analysing the failure of large New Generation Cooperatives (NGC), liquidity and equity were fundamental constraints which contributed to the failure.

Cooperative size has been linked to heterogeneity and was a contributing factor in failure, restructures and conversion in many studies (Hogeland, 2006; Nilsson et al., 2009; Grashuis, 2019; Reynolds et al., 1997; Iliopoulos and Hendrikse, 2008; Nilsson, 2018). In other research, a member's participation levels were found to be linked to cooperative size (Kalogeras et al., 2009), the larger the cooperative, the lower the participation levels. Cooperative size was also negatively linked with social capital in another study in Sweden (Feng et al., 2016), the larger the cooperative, the less social capital was observed. Furthermore, in another study, it was found that democracy in cooperatives was eroded by growth in the cooperative size (Kaswan, 2014).

The final stage of Cook's cooperative lifecycle (1995, 2018) involves the cooperative reinventing, restructuring, or exiting by either liquidation or conversion to another

organisation form. Grashuis (2019), found that comparatively small and relatively larger cooperatives were less likely to fail (Grashuis, 2019) and mid-size cooperatives were more likely to fail. Additionally, the same study found that member heterogeneity was a factor in cooperative failure. Iliopoulos (2015), when looking at Cook's lifecycle (1995, 2018) found that tinkering had its limits if a cooperative was to avoid exit. In another study on NGCs, the authors found that the main reasons for NGC exit were no different from that of other organisational forms; being bankruptcy or liquidation.

5.2.5 Supplementary Factors

Other attributes affect both members and the cooperative. These are contained within this last section and include strategy; risk; marketing and others mostly relating to the cooperative organisation which affect member perceptions and sentiments.

Strategy and Integration

The strategy category was included in this section as the cooperative strategy is often linked to other supplementary factors such as risk, marketing, capital, and equity. Research found that most cooperative members have a similar preference for the strategy the cooperative adopts (Kalogeras et al., 2009). Other research found that where technology might offer an advantage to a cooperative, younger members wanted to invest in it; however, older members were more conservative as regards the adoption of technology. Expansion was the preferred strategy for cooperatives was found by research (Nilsson et al., 2009) and in other research (Nilsson, 2018), it was found that cooperatives adopt one of three different strategies being vertical integration, horizontal integration, or portfolio diversification. However, the same research found that vertical expansion was the dominant form of strategy (Nilsson, 2018) which came with risks due to the requirement that the cooperative had for professional managers who acquired considerable power due to the nature of the complex environment they operated in. Cooperative laws generally had sufficient flexibility for a cooperative to match their governance model to the strategy (Bijman et al., 2012) although other research found that in large cooperatives the governance models were not aligned with the chosen strategy. Another study (Feng et al., 2016) found that when cooperatives started

replicating the strategies of other organisational forms such as IOFs, members no longer felt associated with the cooperative which could lead to cooperative exit. Carr et al. (2008) found that the strategy a cooperative adopts is linked to member satisfaction. It was found in competitive markets that many cooperatives adopted a strategy of earnings payments on top of the farm gate price which could lead to the cooperative exit as a result of the member expectations being set on always receiving an additional payment (Fulton and Hueth, 2009). Fulton (1995) found that as a result of increased vertical integration and contracting, cooperatives also started disappearing. The danger in horizontal and vertical integration, even though the cooperative was seen as being more efficient, was that this could lead to lower social capital among the members (Feng et al., 2016).

Marketing and Risk

Members usually joined a cooperative as they wanted to get better marketing of their products (Xiang and Sumelius, 2010). Member satisfaction was related to the success the cooperative had in marketing the members' milk (Liebrand and Ling, 2014) as long as the costs did not seem excessive. Members entire farm output was usually marketed through their cooperative was found in another study (Gray et al., 1990).

Risk was found to be a factor in member preference in a study of heterogeneity (Kalogeras et al., 2009), the same research found that, in general, members who had large farm output exhibited less risk-averse preferences; however, members with smaller farm output were more risk-averse. Bijman et al. (2012) found that internalisation carried the risk of loss of member control.

Capital and Equity

Fulton (1999) found that cooperatives generally suffered from a lack of capital and were trying innovative ways of obtaining capital, sometimes with repercussions. The author used as an example, the New Generation Cooperatives (NGC) as an example of innovation. In other research Nilsson (1999) found that the creation of subsidiaries wholly owned by the cooperative was another innovative way of accessing capital. However, a study found that the NGC model was not always successful with most of the NGCs formed now liquidated or

converted (Grashuis and Cook, 2018). The authors suggested that retention was one way to avoid some of the capital problems for a cooperative. Other research (Eversull, 2011) found that capital funding from members was found to have dramatically reduced from just over 57% in 1954 to 32% in 2008. In yet another study, it was found that cooperatives continue to suffer from a lack of capital (Fulton and Hueth, 2009). The authors found that agricultural capital requirements had significantly increased over time, and this trend was expected to continue.

Demographic and Supplementary Factors Summary

Demographics of both the individual member, the total membership size, as well as the cooperative itself, play a significant role in member sentiment, governance, and survivability. It is not always possible to balance the different factors as many of the demographic attributes could be present together, further complicating the cooperative environment.

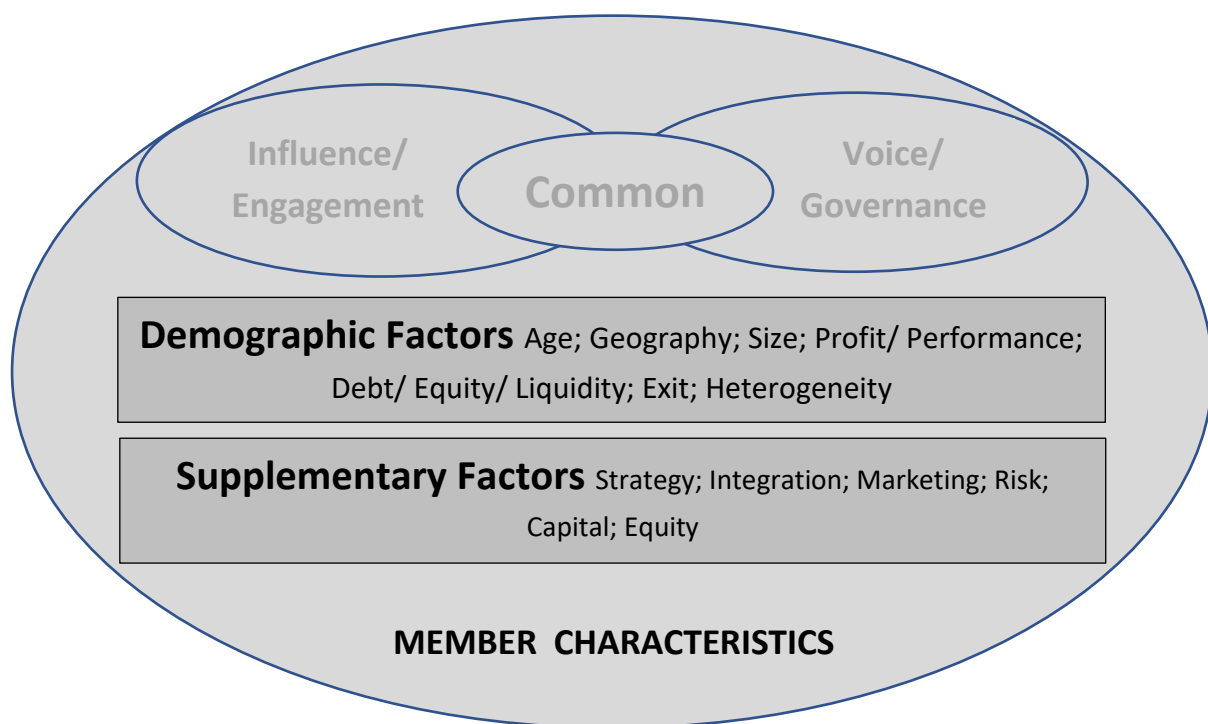


Figure 5. 6: Representation of Literature Review Characteristics

5.3 Research Methodology

The purpose of this study is to understand the member sentiment and perceptions when examining member *voice and influence* in an Australasian Cooperative setting. The study is based on grounded theory (Glaser & Strauss, 2006) and conducted using qualitative, in-depth, one-on-one interview methodology (Creswell, 2014 p 234). There are very few qualitative studies that interviewed cooperative members; the majority of research into cooperative member organisations was conducted using quantitative methods. Therefore, the theory of sample sizes for in-depth interviews influenced this research design. The *Principle of Saturation* has been widely discussed in academia (Mason, 2010, Leech, 2005; Creswell, 2014 p 234) as to what sample size is sufficient for a qualitative study; it differs between the different types of studies, however, in the case of in-depth interviews for PhD studies, 31 participants were an average. (Mason, 2010). The goal of qualitative research should, therefore, be a sample broad enough to cover the majority of different cases while small enough to allow for an in-depth analysis of the data. The population sample is small and looks to understand the underlying reasons for the responses given during the interviews. It follows a semi-structured approach using 24 base questions with probing and clarifying questions being used to understand the answers. The population and setting are explained below, however, in summary, 32 participants from 7 dairy cooperatives from Australia and New Zealand were interviewed of which 31 transcripts were analysed and formed the primary data source for this study. NVIVO was used as a qualitative analysis software tool.

There has been much research carried out examining how cooperative maintain their member satisfaction in other regions (Feng et al., 2016; Feng et al., 2011; Barraud-Didier et al., 2019; others) however; there is little empirical, qualitative, or quantitative, evidence for the Australasia region and no studies can be found that are designed using the principles, the law, and the constitutional documents as a starting point. The question of loyalty and participation have also been explored in detail (Mazzarol et al., 2012; 2019; Nilsson & Hendrikse, 2009; Xiang & Sumelius, 2010; others) attempting to understand what factors are present in members that are loyal and which ones are lacking in those members whose loyalty is not what it should be for continued continuance with their cooperative. This study seeks to understand the farmers' sentiment with specific regard to engagement and governance. Engagement is seen as a sentiment as much of it is contingent on how a member perceives

and feels about their cooperative. On the other hand, governance and participation, while these have links to sentiment and perception, are more tangible in that it can usually be measured, reports drawn, and action is taken. All of these factors contribute to member involvement and participation.

The previous chapters have shown that the policy governing cooperatives in the two countries is different, Australia basing their legislation on the accepted International Cooperative Alliance Cooperative principles while New Zealand has no reference within their legislation to these principles. Furthermore, the Cooperative Companies Act 1996 in New Zealand is structured as a subordinate law under the Companies Act 1993, which, when looking through the member-lens, can result in a less optimal result for member rights due to the implementation being that of a “special” type of company which may cause complexity in implementation of cooperative values.

5.3.1 Research Questions

The research questions attempt to understand how members from dairy cooperatives in Australasia compare to those studied in other regions. Using what other scholars have studied, the research questions seek to understand what can be derived from members on how their cooperative engages with them and how it involves them in decisions as cooperative owners.

Overarching Research Question:

What are the views and perceptions of Australasian dairy cooperative members when considering participation and governance in their cooperative? What is optimum Australasian cooperative member *voice and influence*?

Subordinate Research Questions:

The overarching research question is broken down into components as listed below that assist in the analysis of this element of governance. These are proposed as follows where S-RQn is the number of the Subordinate Research Question:

S-RQ1: How do members perceive their cooperative in terms of their willingness to continue in their cooperative as a member?

Proposition a: Loyalty of Australasian members is related to the size and geography of the cooperative

Proposition b: Loyalty of Australasian members is related to the amount and quality of contact with the cooperative organisation.

Proposition c: Loyalty of Australasian members is higher if they served on a committee or were directors or ex-directors.

Proposition d: Satisfaction of farmers is related to the farm gate price and the operational performance of the cooperative.

S-RQ2: What strategy is employed by the cooperative organisation to maintain a relationship with their members?

Proposition e: Member participation at the annual meeting is problematic, especially with larger cooperatives.

Proposition f: Members perceive the formal contact with their cooperative as not effective when it comes to the annual meeting but feel that other meetings, such as supplier meetings, are effective.

Proposition g: Member engagement with the cooperative is mainly limited to operational contact.

Proposition h: Contact with the member-directors is infrequent.

Proposition i: There is regular informal contact between members.

Proposition j: Members are generally satisfied with their operational engagement, including the resolution of issues.

S-RQ3: How do members feel about participating in the cooperative from both a non-governance perspective and a governance perspective?

Proposition k Besides the governance aspect of serving on the board of directors, members remain willing to get involved in their cooperative.

Proposition l: Members are willing to be more involved in the governance of the cooperative, including serving on committees and the Board of Directors.

S-RQ4: How familiar are the members with the cooperative legislative framework and the internal constitutional documents?

Proposition m: Members, including member-directors, have little understanding of the cooperative law of their region.

Proposition n: Members have little understanding of their cooperative constitutional document that governs the rules of their cooperative; however, the directors do have a good understanding of the constitutional document.

Proposition o: Members, including member directors, believe that they would benefit from education on the cooperative legislative framework and their constitutional document.

S-RQ5: How are dairy cooperative members engaged in making decisions that could affect the farm-gate price?

Proposition p: Members receive very little information regarding strategic (farm-impacting) decisions of their cooperative.

Proposition q: Members have few opportunities to query and clarify cooperative decisions.

Proposition r: Most members believe that cooperatives do not share sufficient information with them, and there are opportunities for improving information quality and distribution.

S-RQ6: What evidence is there from dairy cooperative member-farmers as to their consultation and input to decision-making by the operational management when reviewing major strategic initiatives that the cooperative has undertaken in the past five years?

Proposition s: Members are often not involved in decisions that could impact farm financial performance or profitability.

Proposition t: Cooperatives tend to make decisions at the board level without input from members.

Proposition u: Members do not always have a defined process to query decisions or strategies of their cooperative organisation.

Proposition v: Cooperatives often use confidentiality as a reason for not involving their members or giving them information on farm-impacting decisions.

Proposition w: Members believe that they should be involved in strategic decisions that the cooperative makes, especially if this can impact their farm-gate price or farm profitability in any way.

Proposition x: Directors believe that the board of directors should make the decisions; however, keep the members informed.

S-RQ7: How do members keep up to date on industry changes?

Proposition y: Members do not keep abreast of industry changes that may affect their farm operation.

Proposition z: Members expect their cooperative to update them on industry changes that affect their farm operation

S-RQ8: What is the role that technology currently plays in cooperative engagement and governance, and what opportunities are there to expand the deployment?

Proposition aa: Most cooperative members have access to both a PC and a Smartphone.

Proposition bb: Cooperative members are open to the use of video-conferencing technology in meetings and other contact.

Proposition cc: Cooperative members would support the use of a smartphone app, in conjunction with other methods, to vote on resolutions.

S-RQ9: In the members' perception, what law/ regulation/ policy, if improved, would most benefit cooperative members from Australasia?

Proposition dd: Members from Australia would like the law to examine the role of large supermarkets have in the dairy industry.

Proposition ee: New Zealand members believe that DIRA should be adapted for changing market conditions

Proposition ff: Members believe that cooperative law provisions for ownership should be improved.

Setting

Figure 5.7 depicts the population that will be used to conduct the research in Australasia.



(Freeusandworldmaps.com, 2019)

Figure 5. 7: Interviewee Geography – Australia and New Zealand.

Population

Participants in the research will be taken from Cooperative members from seven dairy cooperatives in Australia and New Zealand. The study, being qualitative in nature, interviewed members from each of the cooperatives, including one director or ex-director where possible. The below schematic indicates how the data source is in relationship to the environment as a whole.

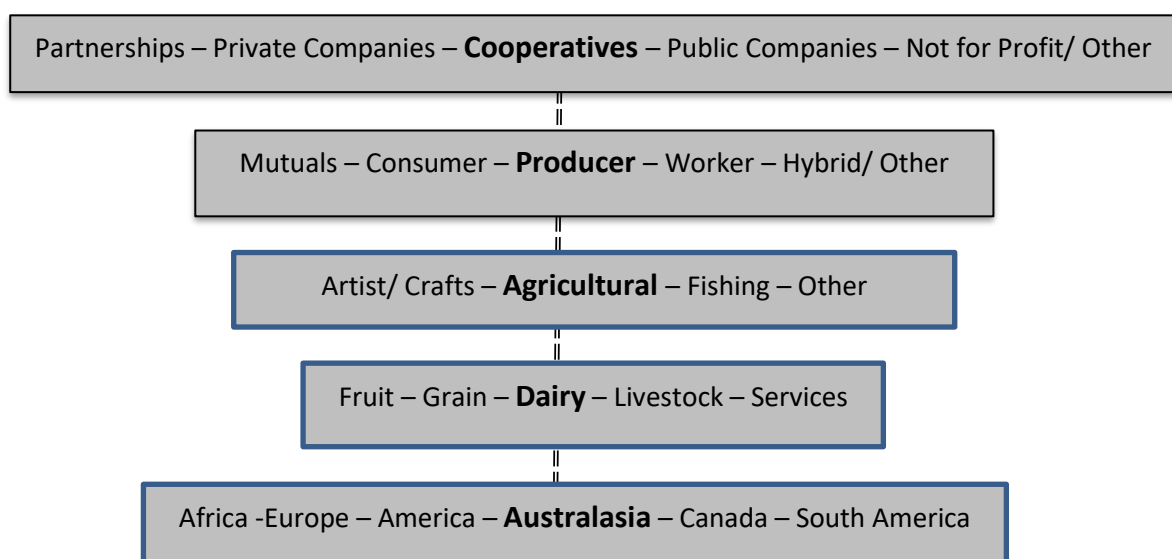


Figure 5. 8: Data Source in Relation to Cooperative Environment

While the primary data source for the data collection was the interviews, some secondary data sources were used that were covered off in previous chapters. Many decisions that the cooperative had taken were listed in annual reports, press releases from the cooperative, and in other media articles. These decisions were used as a basis for the governance questions. DGC was included in the study as it is a dairy cooperative, and while the milk comes from goats, member *voice and influence* factors remain the same as other cow-milk cooperatives.

In total, 32 interviews were conducted, taken from the various cooperatives which operated in regions around Australia and New Zealand. The schematic below shows the spread of participants as far as their cooperatives are concerned with the relative percentages of the total sample. In summary, there were 15 participants from Australia and 17 participants from New Zealand. Although Westland was recently (2019) sold to an IOF, the engagement and governance data collected from the Westland participants remains valid as at the time of the interviews as the members did not have sufficient details on the outcome of the organisational review and therefore remained cooperative members. Figure 5.9 (below) shows various percentages of the whole of 7 cooperative and 31 participants.

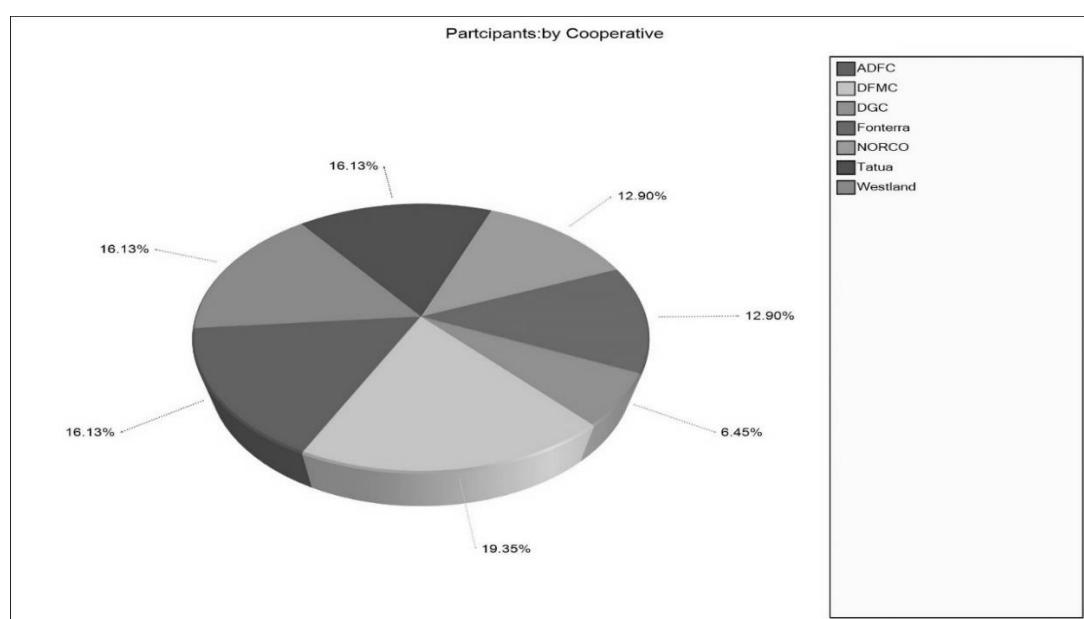


Figure 5. 9: Demographic Data: Participants by Cooperative

Remembering that this was a qualitative study, the demographics are important, although the sample numbers are low, ranging from over 6% of the total population to under 1% of the individual cooperative populations. Table 5.4 below sets out the participants per cooperative that were interviewed.

Cooperative	Country	No of Participants		Cooperative	Country	No of Participants
Dairy Goat	New Zealand	2		ADFC	Australia	5
Fonterra	New Zealand	5		DFMC	Australia	6
Tatua	New Zealand	5		NORCO	Australia	4
Westland	New Zealand	5				
		17				15

Table 5. 4: Participants per Cooperative

Sampling methods used were two-fold and slightly different. Prior to the research being conducted, the researcher wrote a letter informing the cooperatives of the intention to interview members from their cooperative as the members were not bound by any cooperative rules as far as participating in the research. This approach was taken to ensure that members could take part in the research even if their cooperative did not respond to the researchers' letter. Furthermore, the letter asked for a contact person and a list of potential members that would take part in the research. The results were as expected, with some cooperatives responding and others not responding or not wanting to take part in the research.

Some cooperatives responded to the research request with contact details from the cooperative and a list of members' names. Where insufficient, or no, names were forwarded by the cooperative, a snowball approach was taken asking potential participants that had agreed to the study on contacting them, to suggest other cooperative members.

Other cooperatives either did not respond to the research request or did not want to assist with the research. In this case, the interviewer approached other people not associated with the cooperative but may have had family or friends in the cooperatives asking them to suggest potential participant members. Once again, once names were received, a snowball approach was used for enlisting the participation of other members. For example, Westland Cooperative responded saying that they did not want to assist in the research study; as a result, the interviewer phoned a few businesses in the Westland area that the cooperative members had dealings with and asked for names. Names were forwarded, and the

interviewer then phoned the suggested members. Using a snowball approach, other members were suggested and contacted until a sufficient number had been reached.

Some differences were found between the various geographical regions. The Northern Victoria region was in a prolonged drought and had very little pasture, resulting in farmers having to buy water and feed to keep their farms operating. In Northern New South Wales and Southern Queensland, a drought had affected the cooperative members in these regions. On the other hand, members in the Southern Victoria region, the Westland region of New Zealand and the Waikato had no droughts and had sufficient rain for operation. Figure 5.11 below, a graph illustrates the distribution of farmers in various regions.

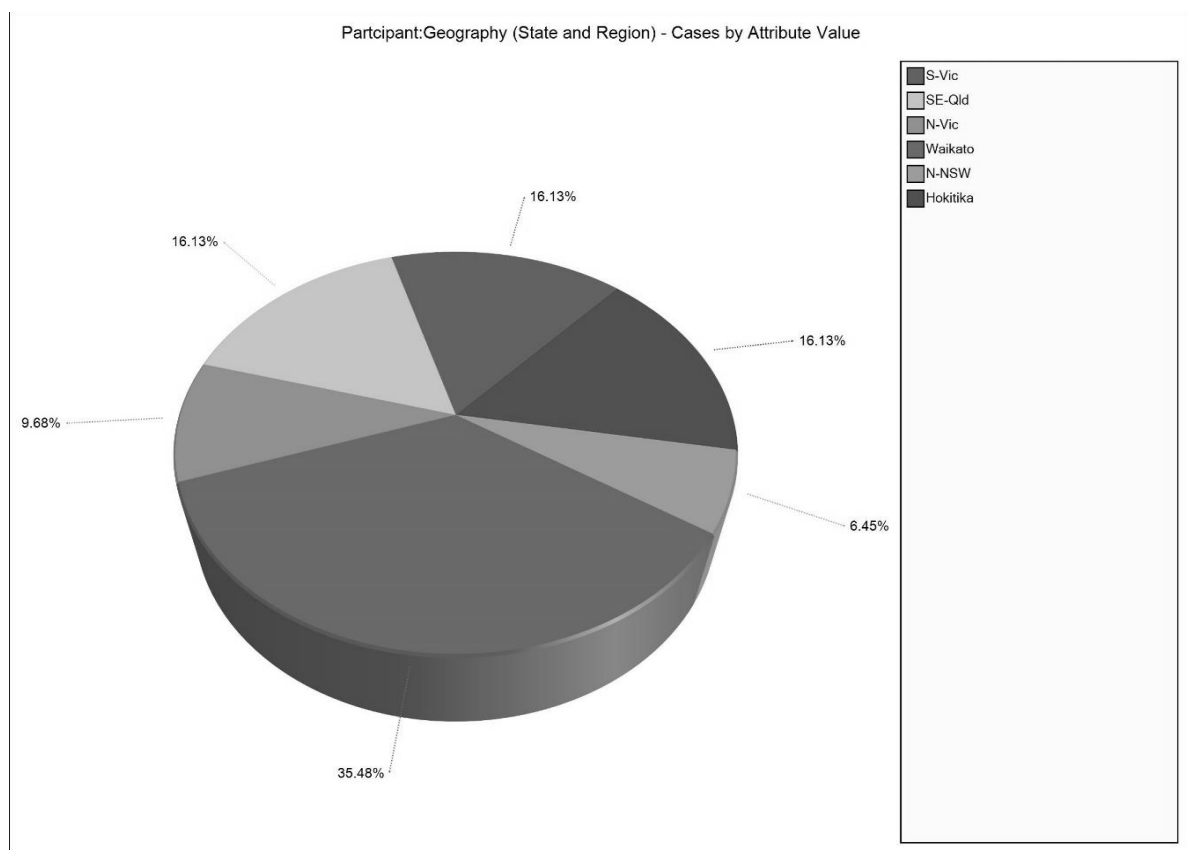


Figure 5. 10: Participant Geography – State and Region

5.3.2 Ethical Considerations

At the time of the interviews, many farmers in Australia were suffering from a prolonged drought. The drought in Australia affected all regions that this research was conducted in, including South and Northern Victoria, Northern New South Wales, Southern, Central and Western regions of Queensland. In Northern Victoria, together with the drought, farmers

were limited by their water allocation. Having no water to grow pasture, the farmers relied on feed sources from granaries for their dairy herds. Furthermore, the Australian Victorian State Government had allowed private investors to buy water rights from farmers giving rise to substantial water price increases from between 300% to 500% which resulted in additional stress being placed on the farmers. The interviews were conducted with the stress in mind when gathering information related to their personal on-farm circumstances.

In New Zealand, the interviews that were conducted in the Westland region of the South Island, the farmers associated with the single dairy cooperative in this region had been told that a substantial restructuring of the cooperative was being considered, however, did not have sufficient details at the time of the interviews. The lack of information that the farmers had was apparent in many of the interviews; care was taken not to broach subjects that would be considered insensitive. As of October 2019, Westland was sold, and as such, the cooperative exists only in name only while some legal action from former members is concluded.

Fonterra farmers have also been through a challenging time. Late in 2018, the advance payment for milk was reduced without notice. The Fonterra Chairman of the Board of Directors and the Chief Executive Officer published a high-level strategy in late 2018 and early 2019 whereby it was proposed that the cooperative would sell off underperforming assets and undertaking a restructure which was completed in early 2020 after the interviews were completed. Consequently, the Fonterra interviews took place within this time of potential stress for their members.

5.3.3 Research Design

The research went through a number of phases to reach the final stage, that of the findings. While each phase can be seen as distinct, the timing of the phases often overlapped to reduce the time taken for the data gathering.

1. Identification of Cooperatives: This stage involved the identification of which cooperatives would be used. As can be seen from the Data Sources in Figure 5.8 above, the Dairy Cooperatives in Australia and New Zealand were used as a sample. At the time there were seven Dairy Cooperatives in Australasia with a further one that had started formation but

was rejected as the cooperative, while being registered, and had not yet fully started operation at the time of the interviews. The cooperatives that were chosen were the following:

- i. Australian Dairy Farmers Corporation (ADFC) – Australia
 - ii. Dairy Farmers Milk Cooperative (DFMC) – Australia
 - iii. NORCO – Australia
 - iv. Fonterra – New Zealand
 - v. Tatua – New Zealand
 - vi. Dairy Goat Milk Cooperative (DGC) – New Zealand
 - vii. Westland Cooperative – New Zealand
2. Contacting the Cooperatives: The chosen cooperatives were contacted using a letter written to the Chairman of the Board of Directors (see Appendix-A); this was conducted electronically and additionally, via standard postal methods. In Australia, responses were received from all of the cooperatives. NORCO was hesitant at first; however, once more detail was supplied, they were happy to forward “seed participants”. In New Zealand, Tatua and Dairy Goat Cooperative responded to the letter and the request for “seed names”. The lack of response from Fonterra and Westland was not unexpected and using various sources seed names for Fonterra and Westland were obtained.
3. Obtaining the Participants: Between the response received from the cooperatives, which included some names and the contacting of people associated with the cooperatives that did not respond, members contact details were obtained. The members that were contacted were moreover asked for names of other members that potentially might be amenable to taking part in the research.
4. Contacting the Participants: the members were contacted using both email (see Appendix-B) and via the telephone to obtain their agreement to take part in the research. The emails included the Participant Information Sheet (PIS) (see Appendix-C) which explained the background to the study as well as a Consent Form (see Appendix-D) which the participants had to sign agreeing to the interview and additionally, that the interview would be recorded and transcribed.
5. Interviewing the Participants: Once a scheduled time had been agreed, the interviewer travelled out to the farm and interviewed the participant, sometimes in attendance with their spouse, son or other family members. The Interviewer outlined the research to each

participant who was given a hardcopy of the Participant Information Sheet and asked to sign the Consent Form prior to any interviews being conducted. Once the necessary paperwork was completed, the interviews were conducted, most of which took between 30 and 60 minutes. The interviews were all recorded on a laptop and a Dictaphone to assist in the transcription process.

6. Transcribing the Interviews: Once the audio files were uploaded onto a secure encrypted site, all of the interviews were transcribed by the interviewer. The completeness of the interviews was checked and checked for accuracy. There was no need for the interviewer to clarify any answers from the interviewees. Thirty-one transcriptions were verified as being ready for the software tool, NVIVO, one having been rejected due to conflicting and incomplete answers.
7. Anonymising the Participant Information: The transcriptions were then anonymised, and a random code assigned to each interviewee to ensure answers could not be tracked back to any members; this was made clear in the participant information sheet that all participants received.
8. Creating the attributes in NVIVO: The demographic data were analysed and, using the first part of the interview questions, a demographic table was created to be applied when coding the interviews.
9. Inputting the Transcription set into NVIVO: The full set of 31 transcriptions in text form were then imported into the software tool, NVIVO. Initially, each interview was coded as separately to be employed in later analysis.
10. Coding and analysis (in NVIVO): Using the framework suggested by Saldana (2013), analysis and coding of the responses using each question as a base for analysis were then performed.
11. Tabulation of the results and findings: The findings were tabulated and discussed in the next section “Findings” and “Discussion” however, this phase tabulated the results so they could be used in the discussion and flow through to the conclusions/ recommendations and implications.
12. Conclusions/ Recommendations and Implications: This phase wraps up the findings and forms conclusions based on the “Findings” and “Discussion” section and relates these to the hypothesis

The below diagram describes the various stages of the research

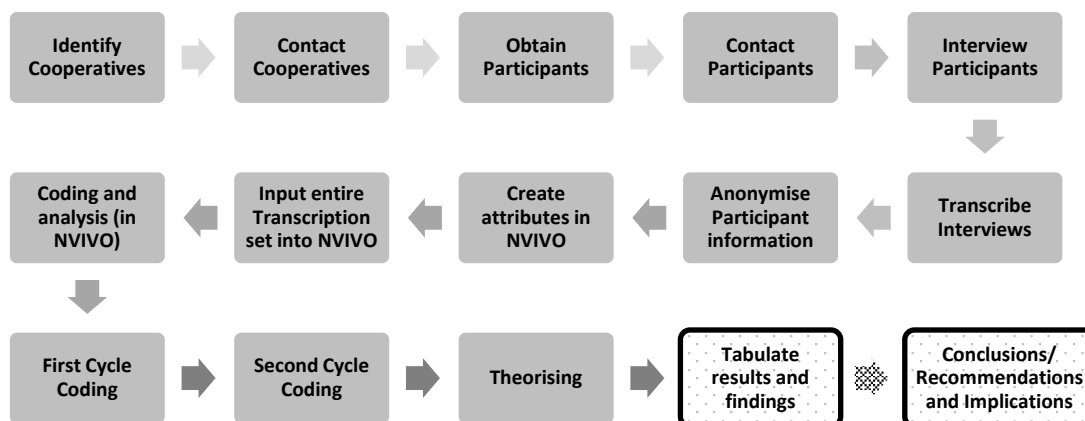


Figure 5. 11: Phases of the Adopted Methodology

5.3.4 Interview Instrument and Protocol

All interviews were semi-structured in nature and used a base set of 24 questions to elicit responses from each of the participants. Mostly, probing or clarifying questions were used to provide detail and rationale on the answers from each of the participants. The questions that were used were split up into four distinct but overlapping themes; these are as follows:

1. Questions on the background of the participant including the number of years farming, their status as either a member or director; herd and land size to get an idea of their farm environment; how long they had been a member of their current cooperative; what other cooperatives they were involved in and how long for; and technology that was used on-farm in the home office as well as any automation that the member had implemented,
2. The second part concentrated on understanding the participants' sentiment and perceptions of their cooperative. These questions including probing questions on loyalty; participation and the reasons for participation or non-participation; what contact the member had with their cooperative organisation from a non-operational perspective; what contact the member had with other members where are how often; their operational relationship perceptions; and how willing they were to get more involved in the cooperative from both a non-governance and governance perspective.

3. The third section asked questions on tangible governance aspects. The questions asked questions to understand the members' involvement in the governance of the cooperative, including satisfaction rating (Likert scale of 0 to 10). Furthermore, probing questions that strove to understand their understanding of the legal framework that each member has recourse to being the Cooperative Law and the Cooperative Constitutional document and their willingness to be educated on these topics; their involvement in the ownership of the cooperative such as involvement in decisions and the reasons for the involvement; information on decisions received from the cooperative and the reasons and opportunity members were given to validate the suitability of the decision; and the perceptions they had on the use of technology to overcome some common cooperative governance challenges.
4. Finally, a question was asked on what regulation/ policy/ legislation, in their mind and the reasons behind their answer, would be appropriate for the government or regulatory body to change in order to support members of a cooperative and farmers in general.

Please refer to Appendix-5.5 for an overview of the questions that were asked, bearing in mind some questions and answers were combined, and other clarifying questions were required to understand the members' perceptions or experiences fully.

5.3.5 Data Analysis

Data analysis took place using the transcripts, which were anonymised and imported into NVIVO software. The techniques used in coding followed academic research for qualitative research using Creswell (2013), for the coding techniques, and Bazeley and Jackson (2013) for the specific usage of NVIVO using qualitative data coding techniques. The analysis of the qualitative data referenced both Schreier (2012) and Gibbs (2015). Saldana (2013) formed the base of what coding techniques were employed in the analysis of the data.

According to Saldana (2013), coding and analysing of qualitative data passes through at least two phases as per below, this research extended the phases to three of which the third stage included Theorising (Saldana, 2013 p249):

- i. *First Cycle Coding* – Attribute loading; Structural Coding to give an overview of the dataset; Descriptive Coding; and InVivo coding when going through the interviews, where items became apparent or were considered of interest.
- ii. *Second Cycle Coding* – Refining of First-Cycle coding which involved creating new codes from emerging themes, combining codes; splitting codes and deleting codes that were not relevant. Pattern coding which created a new set of codes based on the other codes and themes. Focused coding was applied using the structure as described in Saldana (2013 p213)
- iii. *Theorising* – As this research is based on Grounded Theory, the analysis and coding will relate to the building up of a Theory of Cooperation for Australasian dairy cooperatives.

5.3.6 Summary

The next section applies the theoretical analysis framework against the data using NVIVO as a software tool resulting in a number of findings that are then discussed and applied in crafting a set of conclusions, implications, and recommendations. By using a robust framework and data collection process, executing against the research design while building up Grounded Theory (Charmaz, 2008) resulted in structured Findings and Discussion sections.

5.4 Findings

As mentioned in the Methodology section prior to this one, a total of 7 cooperatives took part in this research study which was, at the time, the total number of active dairy cooperatives in Australasia. One other cooperative, Mountain Milk, was rejected because it was in its formation stage and had less than ten members signed up as of April 2019. It has since expanded its membership base, and as of October 2019, it had over 20 members. The researcher travelled to Westland to start the interviews, followed by South Victoria, North Victoria, Southern Queensland, Northern New South Wales, and then returned to New Zealand where the final interviews took place in the central North Island.

5.4.1 Participant and cooperative demographics commentary

The interviews formed the primary source of data in the analysis stage, discussed hereunder; however, some demographic data was obtained using observation. For example, age, whether or not the spouse attended, and the general environment of the participant was also taken into account.

The cooperatives were further categorised as those having a complex or simple structure. The simple-structured cooperatives were centralised, meaning that all, or a significant majority, of the membership was located geographically in close proximity. The cooperatives that fell into this category were Dairy Goat (New Zealand), Tatua (New Zealand), Westland (New Zealand), ADFC (Australia). Similarly, those cooperatives whose membership was dispersed over a large geographical area included Fonterra (New Zealand); DFMC (Australia), and NORCO (Australia). This categorisation is important as the literature has linked lower member participation and commitment (Jussila et al., 2012; Feng et al., 2016) and governance (Reynolds et al., 1997; Grashuis, 2019) to geographical demographics in many regions. Other literature has linked smaller cooperatives in terms of member proximity and geography to higher social capital (Feng et al., 2016).

The number of interviews totalled 32; however, one transcription was rejected after initial analysis as the participant was uncooperative in answering the questions for various reasons not part of this study, it was unfortunate to reject this particular participant as the person had been a director serving on the largest cooperative.

Australian Cooperative Demographics

The first Australian cooperative, Australian Dairy Farmers Corporation (ADFC), was receptive to the research study, and numerous phone calls made to the nominated contact person who happened to be their operational manager. The cooperative is a supply dairy cooperative, selling the entire milk production to a number of organisations with which the cooperative had short-term and long-term supply contracts. The cooperative was considered smaller, having approximately 100 active supply members. Furthermore, the chairman acted as executive officer and had been in office for many years. This cooperative had reincorporated under the Australian Federal Corporations Legislation (ADFC had cancelled its cooperative registration and re-registered as a corporate entity) a few years prior to this study being conducted; however, the constitutional rules of the corporation remained a cooperative, and the members were the only shareholders of the organisation. Geographically, it has two main membership regions, that of Southern Victoria where the majority of members resided and Northern Victoria, where the chairman also resided. Many of these members joined the cooperative (corporation) following the demise of Murray Goulburn cooperative in 2017.

The other Victorian-based cooperative, Dairy Farmers Milk Cooperative (DFMC), was larger, and although it had its headquarters in Victoria, it had members along the entire south-east coast of Australia from Cairns to South Australia. They had also recently taken on a few suppliers in Western Australia. This cooperative was larger with approximately 500 suppliers; the majority were in two main regions, that of Victoria and the other being South Eastern Queensland. Additionally, this cooperative was a supply cooperative supplying all its milk to one large organisation. To complicate the situation, at the time of the interviews, the organisation that bought DFMC's milk was being divested off the foreign-owned corporation and up for sale. Following the completion of the interviews with members from this cooperative, it was announced that divestiture of the organisation was completed, and the buyer was another foreign-owned corporation, Saputo, which was the same organisation that Murray Goulburn was sold to.

Members from the last Australian cooperative, Norco, followed the interviews in Victoria. This was a mid-size cooperative with more than 200 member suppliers. The cooperative had two major lines of business being the supply of a large retail supermarket chain and the processing of the milk into other dairy products. The members were based in the Northern New South

Wales and South-Eastern Queensland regions. The cooperative had been operating for many years and was seen as the oldest surviving dairy cooperative in Australia.

New Zealand Cooperative Demographics

The Interviews commenced with participants from New Zealand. They all came from a cooperative that, on examination of the past few years' annual reports, had financial challenges and had reduced the farm gate price on numerous occasions. This cooperative, when asked to take part in the study, responded negatively saying it was not a good time. It must be stressed that initial letter to the cooperative chairman and operational management did not ask permission from the cooperative organisation to conduct the interviews, however, took the approach of asking for their support in the way of a list of potential members and a contact person which further communications could be used as a primary contact.

Members from the largest cooperative in Australasia, Fonterra, were then undertaken. This cooperative had been the result of mergers of cooperatives leading up to the enabling legislation, the Dairy Industry Restructure Act 2001, which formed the cooperative. The cooperative did not respond to the letters outlining the research, so members were contacted using lists of names that the interviewer had from friends and family. Following the contact list being obtained, a snowball approach resulted in the required number of participants being found. Fonterra is a processing cooperative with 27 factories around New Zealand which processes the raw milk into several dairy products, mainly milk powder and other dairy ingredients. The cooperative was stressed as an organisation due to various circumstances and was undergoing a review of its entire operation. When the interviews took place, the members were, as a result, anxious about the outcome of the review. Fonterra cooperative members are spread out geographically on both the North and South Island of New Zealand. It is worth mentioning that Fonterra operates in Australia as a corporate entity, not a cooperative and similarly, Fonterra operates in many other regions outside Australasia; however, none of these are cooperative based entities.

Another smaller centralised dairy cooperative was then contacted in the Waikato (located in the centre of the North Island of New Zealand), and a list of names received for potential interviews. This cooperative was one of the few that did not merge with Fonterra when they had an opportunity to, in early 2000/2001. The members are all geographically close to the cooperative processing factory. Tatua has under 100 members as of October 2019 and is a

closed cooperative in that it does not subscribe to the “Open entry” cooperative principle. This cooperative has been in operation for many years and creates speciality ingredients mainly for input into other products.

The final cooperative is also situated in the central North Island with members spread geographically between the Waikato and the Taranaki regions. The cooperative, when contacted, supplied the names of directors to be interviewed. They are a single factory cooperative and process their milk for input to be used in specialist ingredients. Dairy Goat (DGC) cooperative is different in that while it is a dairy cooperative, it is not cow-based but a goat-based dairy cooperative.

The diagram below displays the various cooperatives and the respective percentage of the total sample.

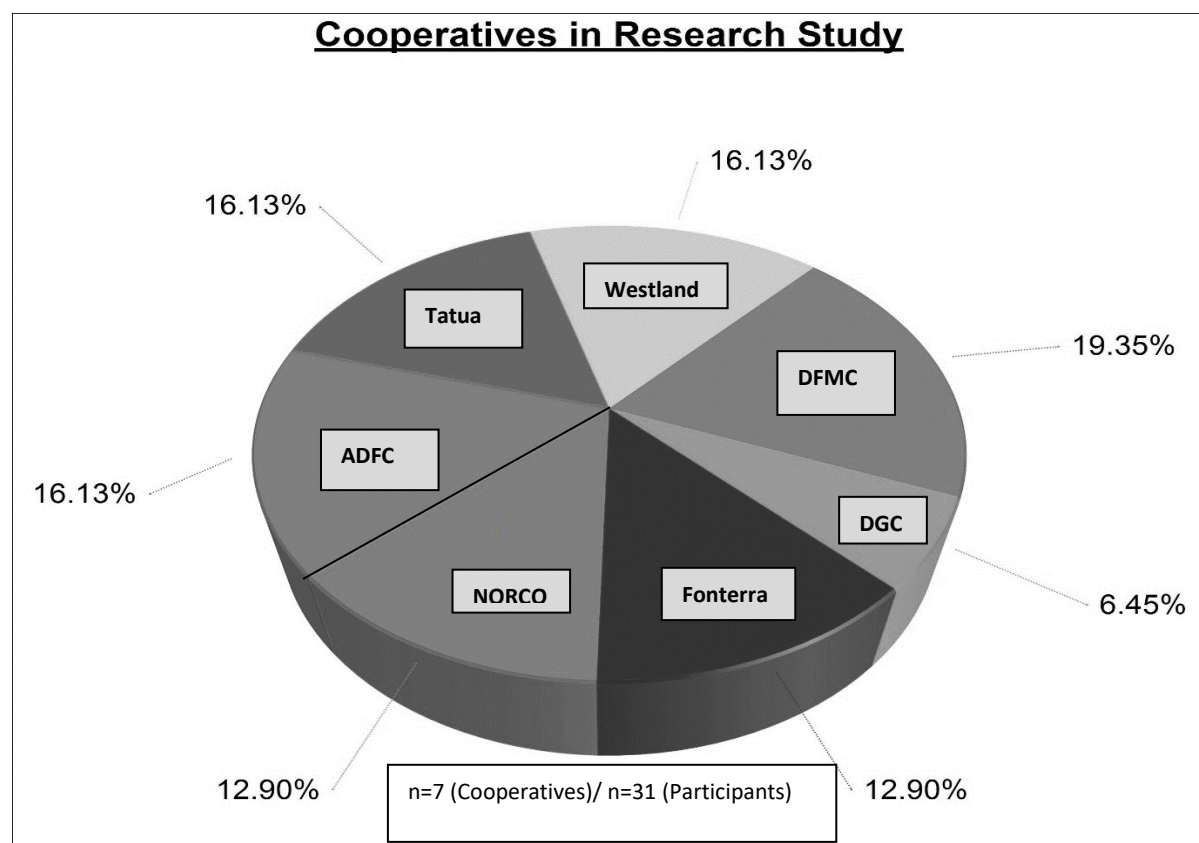


Figure 5. 12: Cooperatives and their Relative Sample Percentage of the Total

When considering geography, there was a mix of cooperatives, the smaller cooperatives which were mainly centralised with perhaps one other region but not considered too far away from the processing head office were Tatua, DGC, Westland, and ADFC. Larger (or more

complex) cooperatives were those cooperatives that were geographically dispersed and included DFMC, Fonterra and NORCO.

Participant Demographics

As stated above, 32 participants were interviewed using a base of 24 questions. Out of these 31 transcriptions were inputted into NVIVO, which was used as the qualitative analysis tool. The first questions of the interview were to understand the member demographics by asking environmental questions. Besides the base questions that were asked directly, other observational data was recorded to assist in the analysis. This section concentrates solely on demographic data. This is a qualitative research study; therefore, the data shows trends, however, not conclusive pictures. The study was more concerned at understanding the underlying reasons for the answers than the quantitative aspects of the members' demographic data.

It was decided as part of the research design that obtaining participants that included directors or ex-directors would be of interest to test the answers against that of the members; as a result, a number were included. The graph below shows the relative split between members and those that were serving as directors or had been a director at some point in the past.

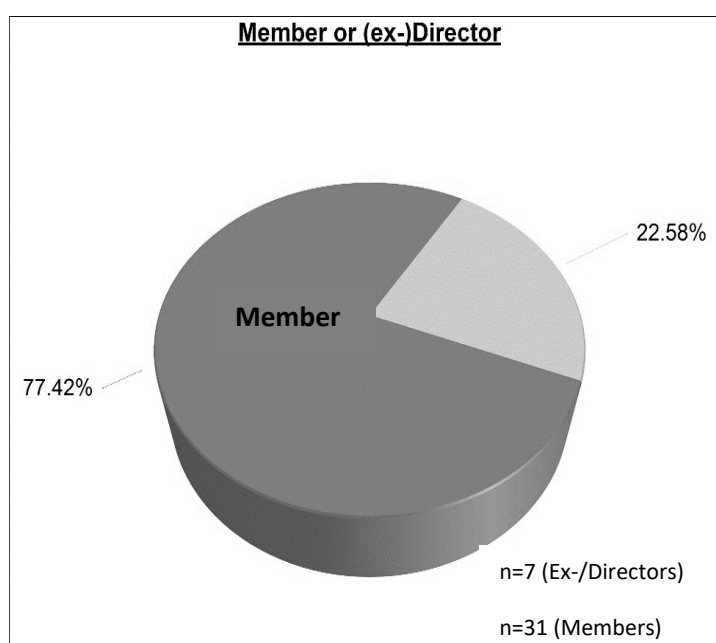


Figure 5. 13: Member vs Director Participants

Participants ranged in age from 22 to 79 years of age, of which there were four female members and 27 male members. However, 12 members had their female spouse with them in the interview, and one female had her male spouse with her.

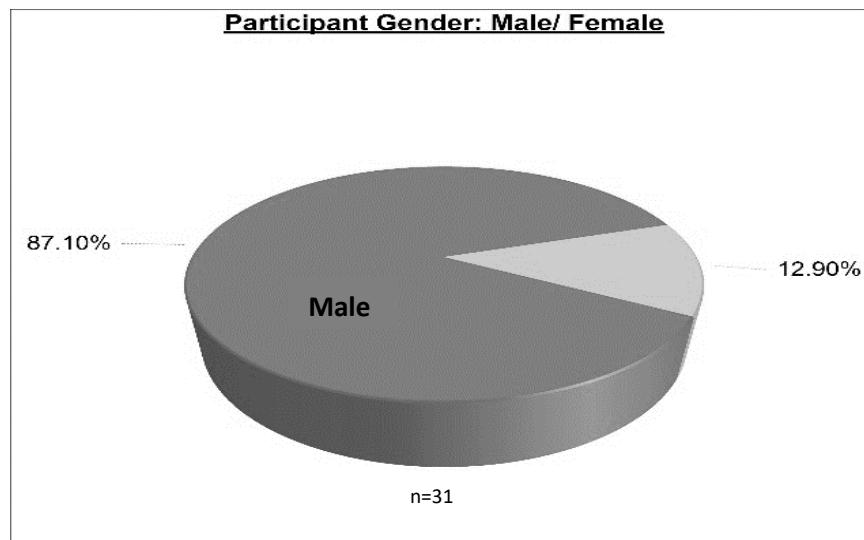


Figure 5. 14: Gender-spread of the Total Sample

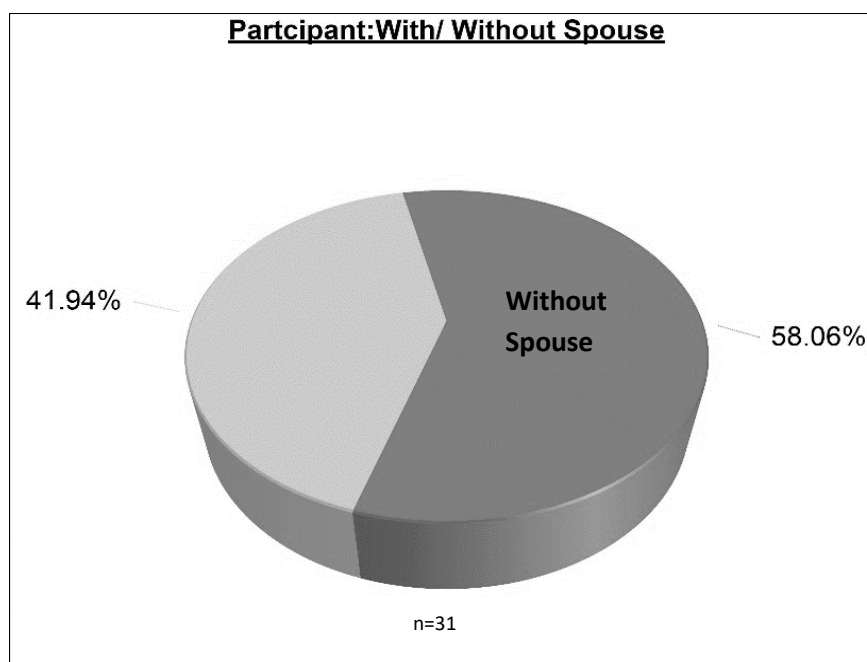


Figure 5. 15: Participants who had a Spouse in Attendance in the Interview

Farm size and herd size was additionally recorded to ensure a good spread of participants which could relate to farm profitability, for example.

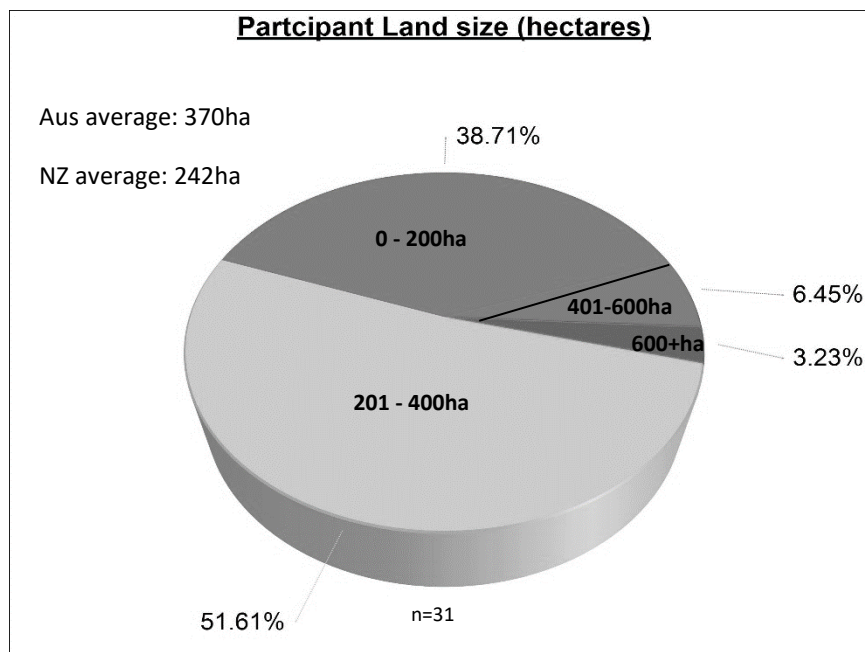


Figure 5. 16: Participants Land Size

Herd size, while it was recorded for the Dairy Goat Cooperative, was not reported as they were the only goat cooperative and goats produce less milk; therefore, a comparison as to numbers of animals was seen as not relevant.

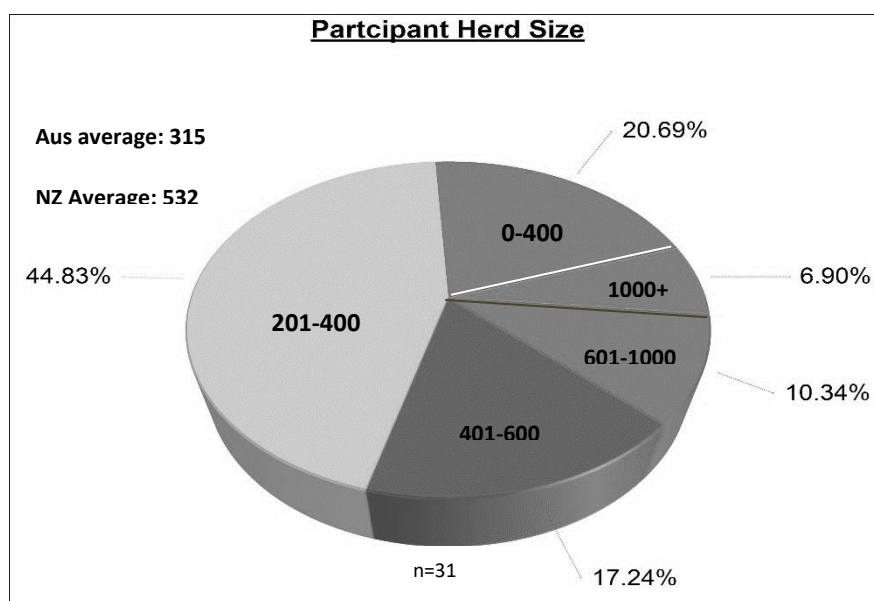


Figure 5. 17: Participants Herd Size

Furthermore, data were collected on a timescale. The time that a participant had been farming was considered relevant when viewing their answers as well as the number of years that the member had been part of their current cooperative.

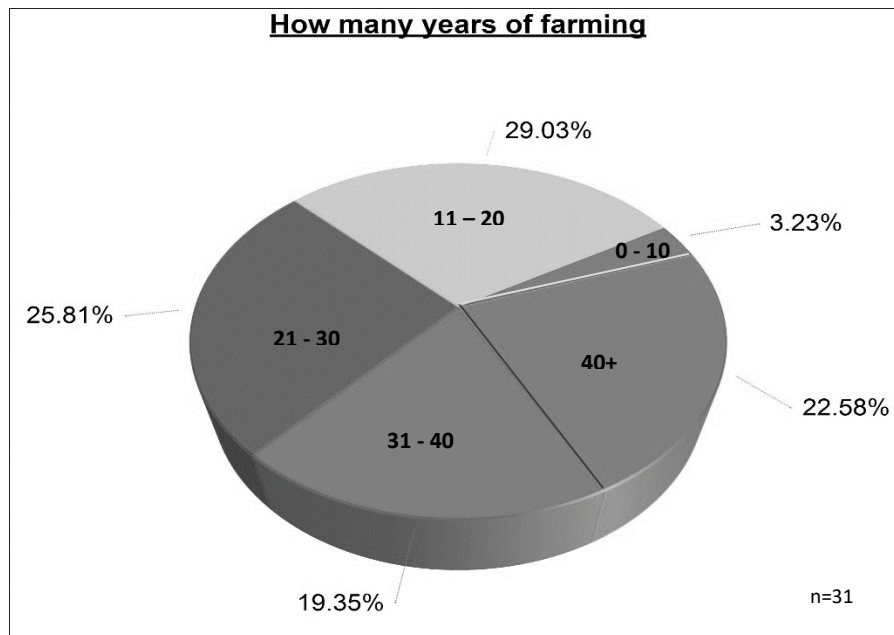


Figure 5. 18: How long the Participant had been Farming

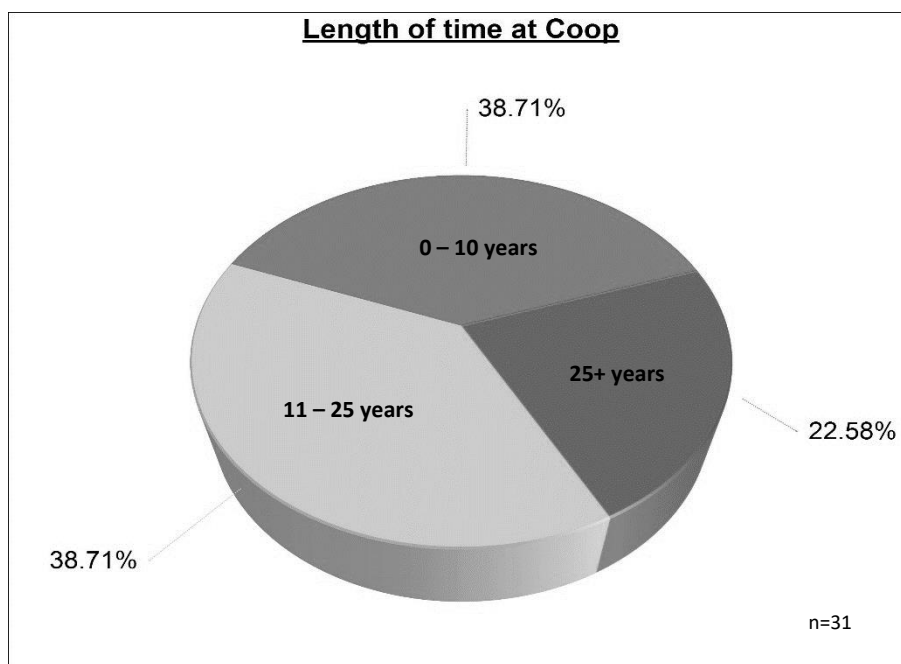


Figure 5. 19: How long Participant had been part of their current Cooperative

Other demographic data that was considered relevant were also collected, including what cooperative they had been with previously and what other cooperatives they were currently associated with. Not all members from all cooperatives had moved within the previous ten years.

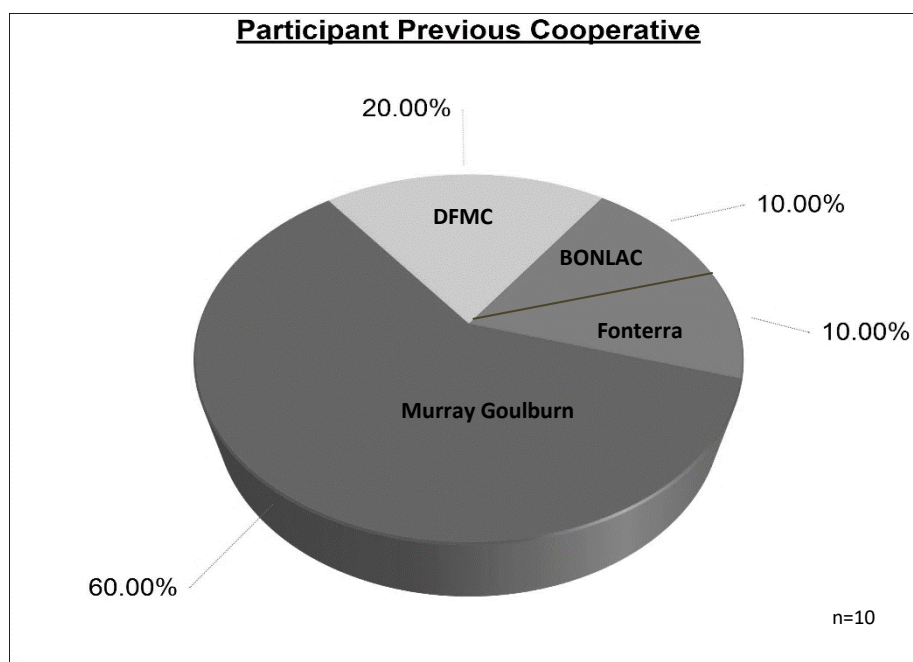


Figure 5. 20: Participant Previous Cooperative

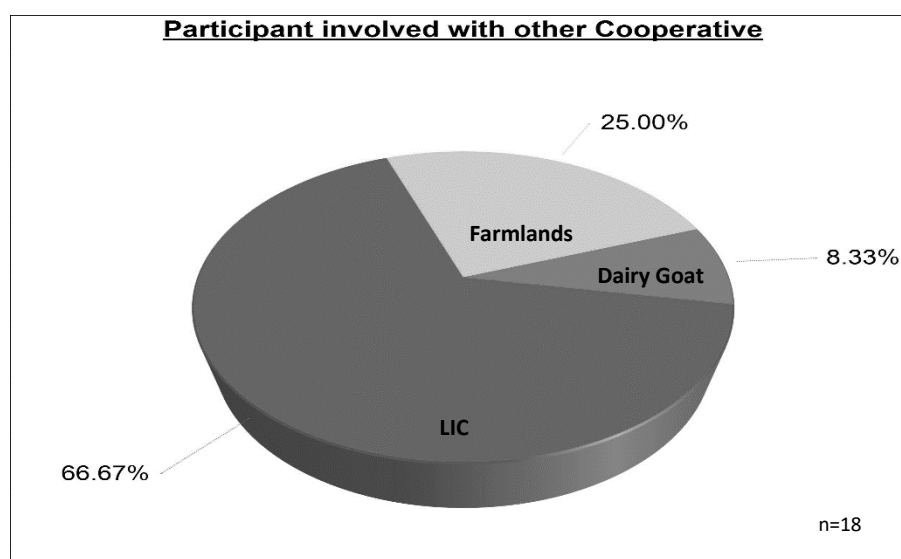


Figure 5. 21: Participant is a Member of other Cooperative (New Zealand)

Once again, not all participants were members of another cooperative as in Figure 5.21 above, however many of them were making the results interesting as it goes to cooperative ideology support.

As part of the background and demographic questions, the participants were asked about the availability of technology on-farm that they used. Most of the members had a personal smartphone that they used and additionally, access to a home office with the usual equipment being a Personal Computer or Laptop and a printer.

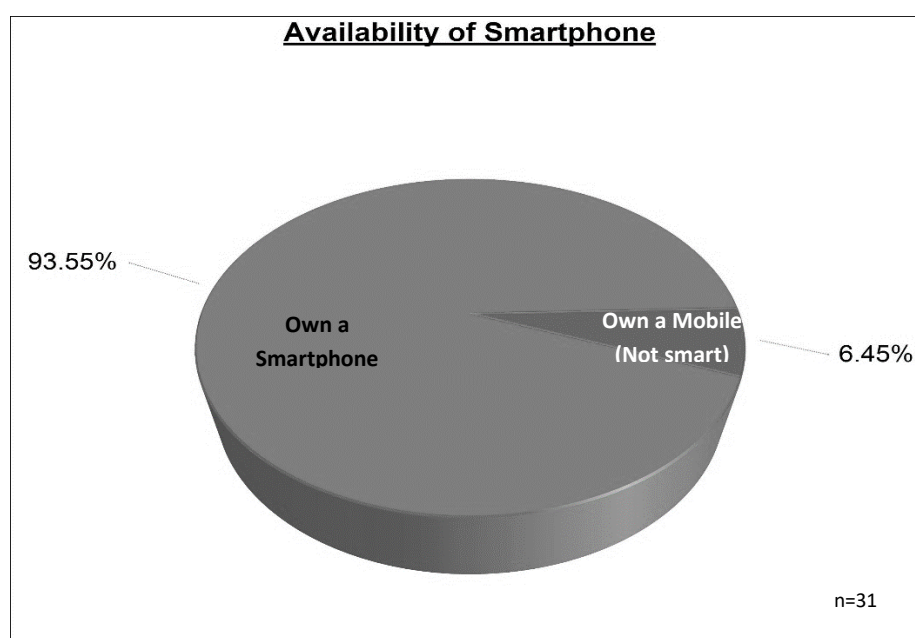


Figure 5. 22: Participant Owns a Smartphone

Just two members of the total of the participants interviewed had no access to a smartphone, although they both had older-style mobile phones for basic use. The figure above represents participants access to a smartphone and below the access to a PC/ Laptop.

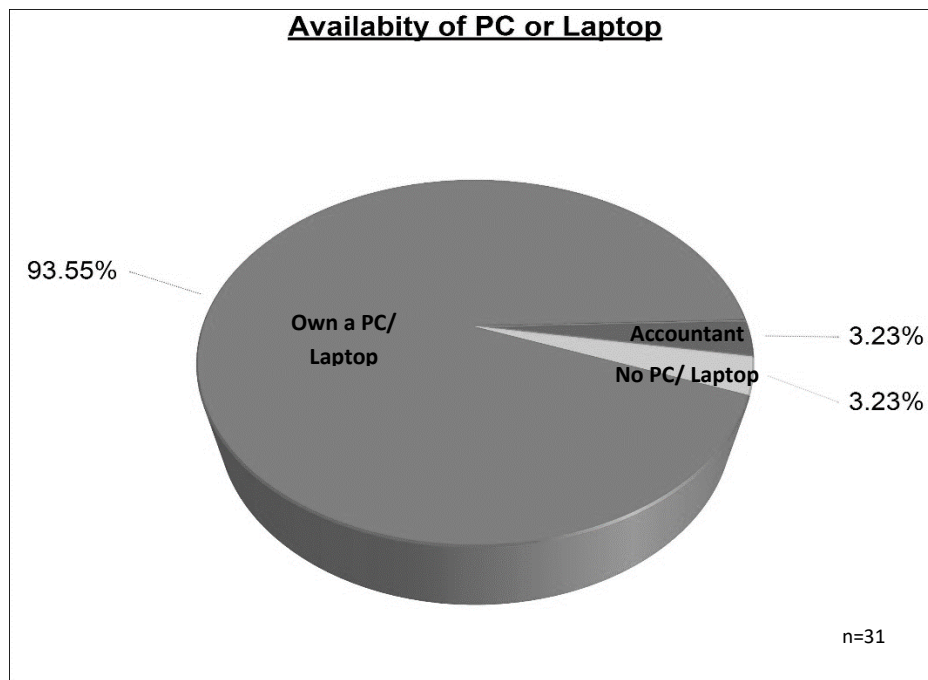


Figure 5. 23: Participant has Access to a PC or Laptop

Only two of the participants did not have direct access to a PC/ Laptop, although one of these used an accountant, therefore, could potentially access equipment via this method.

5.4.2 Engagement findings

The findings have been broken down into various themes and sub-themes, which are related somewhat to the structure as contained in the Literature Review chapter of this thesis. The main themes are the sentiment and perceptions-based theme being the *Engagement Theme*; the tangible theme called *Member Governance*; and the *Policy* theme, which is cross-themed with the *Engagement* and *Governance* themes.

Engagement Theme (Perceptions and Sentiments)

The loyalty and satisfaction data came as a result of an answer based on a Likert scale of one to ten. The data was collected from the participants at the beginning of the interviews. Probing questions were asked about each sub-theme as to the reasons why the participant answered as he/she did.

Loyalty

Loyalty was measured on the Likert scale of one to ten, with one being not loyal at all, and ten being very loyal. The findings ranged from low to high; low was taken as six or below, 7 and 8 were taken as moderate, and 9 and 10 on the scale were taken to be high. Where the participant gave a low score, it was confirmed that the option of leaving the cooperative was high, and where the score taken was high it was interpreted, and confirmed during further questioning, that the participant had no plans to leave their cooperative. Loyalty scores were as Table 5.5 below.

Loyalty Item	Loyalty Score (/10)	Comment
All Cooperatives	8.0	Medium
Australian	8.0	Medium
New Zealand	8.0	Medium
ADFC	9.0	High
DFMC	7.0	Medium
NORCO	8.4	Medium
Dairy Goat	9.8	High
Fonterra	7.8	Medium
Tatua	9.5	High
Westland	5.8	Low
Small Cooperative	8.3	Medium (ADFC, DGC, Tatua, Westland)
Small Cooperative (Excluding Westland)	9.4	High (ADFC, DGC, Tatua)
Large Cooperative	7.6	Medium

Table 5. 5: Loyalty Scores across all Cooperatives

When discussing loyalty and the score that participants gave, a range of reasons were given, both positive and negative. Some participants responded to the question saying they were actively examining offerings from other cooperatives, while others stated that they were not looking actively; however, they were open to other opportunities and keeping an eye out. Other participants said they would not move; for example, none of the Tatua members stated that they move with one member responding adamantly:

“Won’t move, very loyal to Tatua.”

Notwithstanding the restructuring strategy that was underway, Fonterra farmers stated that they would not move as they remained loyal to the cooperative. One Fonterra farmer stated:

“We have always been viciously loyal to Fonterra really, even though we’ve been we’re still really really disappointed with the performance.”

Other farmers from drought-affected areas in Australia noted that price had become more important to them now as the survival of the farm came first and. As one farmer stated:

“.....but now ultimately, the price comes first now.”

Moreover, another member in the same area testified that there were suppliers who were actively soliciting them to move their milk supply.

“Loyalty in this region is different because we got the option of supplying six to eight factories.”

One of the New Zealand members from Westland that was similarly undergoing a change that the members were anxiously awaiting, stated that in explaining his response that his loyalty was tied to a lack of information on the new strategy:

“having to make my mind up with staying with Westland is the right option.”

and,

“.... we have talked to Fonterra “

On what could improve their loyalty with their cooperative the participants had several suggestions including; they did not want the tiered pay structures that were implemented in ADFC which was echoed by other members from the same cooperative; the treatment as a shareholder was not equitable with what a cooperative stood for and that the cooperative no longer acted like a cooperative but more like a corporate. Fonterra members were adamant in their position that New Zealand needed a cooperative, and even if Fonterra had made mistakes, they were watching to see what would happen. They stated that they wanted to be more involved as that would help them keep their loyalty levels up. Others pointed at a lack of information as one area that could be improved, stating that:

“.... I honestly don't know what's happening “

On the positive reasons for remaining with their cooperative, the members across the various cooperatives maintained that; their cooperative was doing OK as few were doing better than they were; the cooperative was centralised and small, and they enjoyed the closeness with the other members; there was good solid leadership in their cooperative; and that the worst had happened already, so better times were about to start. There was an equal number of

members that were positive as those who were negative when clarifying loyalty responses. However, there were no positive comments from Westland members. One member summed up a few responses by saying:

“We wouldn't leave just for a couple of cents, put it that way.”

On general negative comments, there were varied responses, including that shareholders were not treated equitably; the cooperative was no longer a cooperative. One member further declared:

“I don't want to be the last rat on a sinking ship.”

A significant source of negative comments about loyalty came from Westland members who felt they no longer had control of their cooperative and were frustrated.

When asked what their reasons would be to move cooperatives, or to move to a corporate processor, the responses were similar: the members would only move if they felt the cooperative was in danger of imminent collapse. Additionally, the members felt that they would move if the strategy of the cooperative were going in a direction that they did not agree with, for example, one member, when asked why he had left the other cooperative he stated:

“... bought out by a group from overseas and they were heading down a different path to where I thought they should be in a cooperative ...”

Many of the members in Victoria, Australia had left to join another cooperative when the Murray Goulburn cooperative failed in 2017. Other members had left when one cooperative was sold to a corporate organisation, and others had left Fonterra Australia (non-cooperative) due to general dissatisfaction. Some members had moved between the cooperatives in Australia citing reasons for leaving as being part of a smaller cooperative and a different strategy. In New Zealand, some members had left Fonterra for Dairy Goat Cooperative citing size and complexity as a reason.

Satisfaction

Satisfaction was measured on the Likert scale of one to ten, with one being not satisfied at all, and ten being very satisfied. The findings ranged from low to high; low was taken as six or below, seven and eight were taken as moderate, and nine and ten on the scale were taken to be high. Participants were asked to clarify their score by further questions regardless of the actual score itself.

Satisfaction scores were as follows:

Satisfaction Item	Satisfaction Score (/10)	Comment
All Cooperatives	7.8	Medium
Australian	8.6	Medium
New Zealand	7.1	Medium
ADFC	8.5	Medium
DFMC	8.5	Medium
NORCO	9.0	High
Dairy Goat	8.0	Medium
Fonterra	6.1	Low
Tatua	9.2	High
Westland	5.5	Low
Small Cooperative	7.8	Medium (ADFC, DGC, Tatua, Westland)
Small Cooperative (Excluding Westland)	8.6	Medium (ADFC, DGC, Tatua)
Large Cooperative	8.0	Medium (Fonterra, DFMC, NORCO)

Table 5. 6: Satisfaction Scores across all Cooperatives

In calculating the score for satisfaction, as with Loyalty (above), the responses were further clarified to understand what each of the participants meant by their score, whether low, medium, or high. The reasons for satisfaction scores were varied; many members believed that the price was the reasons why they were satisfied stating that some of the reasons they had left their previous cooperative to join their current one was the size of the cooperative and that they felt valued, one member, answered:

“.... appealed to us because of its size and your milk, and you are valued.”

Although many of the smaller cooperatives in size and geographic spread satisfaction ratings were higher than that of the larger cooperatives, many of the members, including directors, stated that there was room for improvement. One of the directors from a smaller cooperative stated:

“You are never going to be happy with everything in the coop things are never going to suit your particular farm 100% “

Of the members whose satisfaction was lower, these included Fonterra and Westland members in particular. The reasons for their dissatisfaction were similar, which were based around returns for the farm gate price, and the general health of the cooperative, for example:

“I’m just a bit doubtful the way things are going and the hole they are in “

The way the members felt they had been treated and a diminishing control in their cooperative was also a factor with two different members explaining:

“... there have been things in the past that happened that shouldn't have happened.”

And

“.... I think we lost control of our company. And I when I say that, I think that includes the directors. “

Mention was made to the past in other cooperatives, citing a reason why they had left being:

“... Murray Goulburn. We signed for another 12 months, and we were quite determined. In the end, their price and their management was just screwing us totally. We had to go.”

Another reason for dissatisfaction among Westland farmers was the lack of information that the members were getting around the organisational review. One Westland farmer summed it up after giving a low score for their cooperative for satisfaction, declaring:

“That’s as low as it’s ever been.”

Participation

The Annual General Meeting attendance, which is mandated in the cooperative laws as well as reinforced in the constitutional documents of the cooperative, was found to be problematic. The question was asked if the member had attended the Annual General Meeting (AGM) and the reasons for non-attendance if they had not. There was a clear split between larger geographically diverse cooperatives and those that were considered smaller and more centralised. The below graph shows total member attendance at the AGM, directors were included.

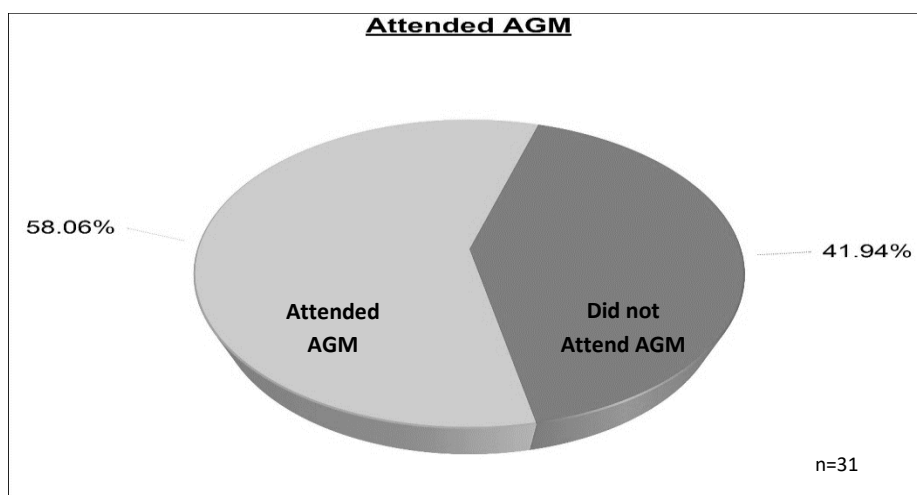


Figure 5. 24: Participant Attendance at AGM – All Participants

Although, on the face of the attendance shown above in Figure 5.24, when the results are split between the two types of cooperatives, large and geographically diverse and the smaller more centralised cooperatives the results show a distinct pattern.

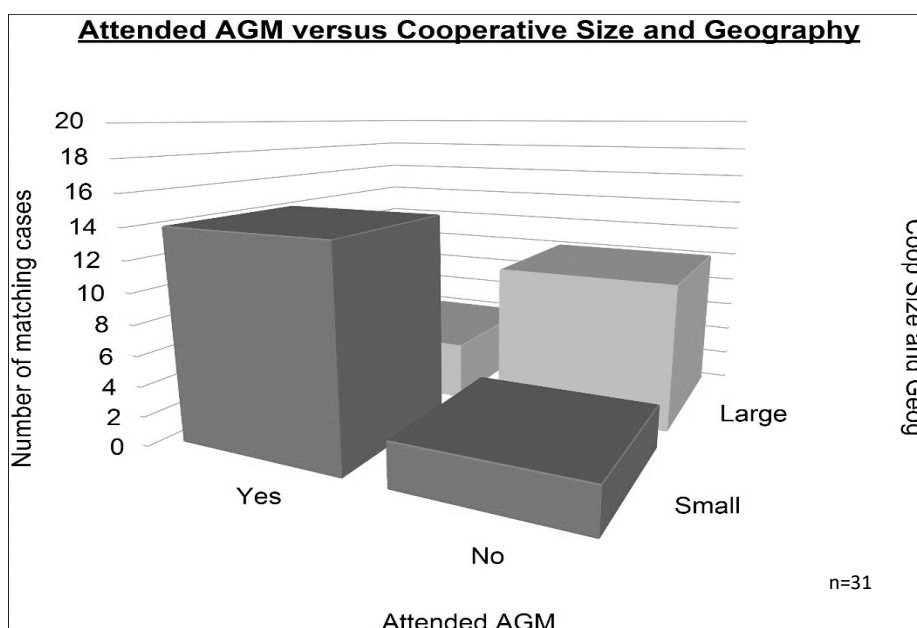


Figure 5. 25: Participant Attendance at AGM vs Cooperative Size

However, one of the reasons for most of the members not attending the AGM from the geographically diverse cooperatives could be due to the fact that the meeting was held in another city far from the members' farms. Another critical reason why members did not

attend the AGM is shown below with the findings mostly due to the AGM being held in or very close to peak milking season and as a result on-farm commitments take precedence.

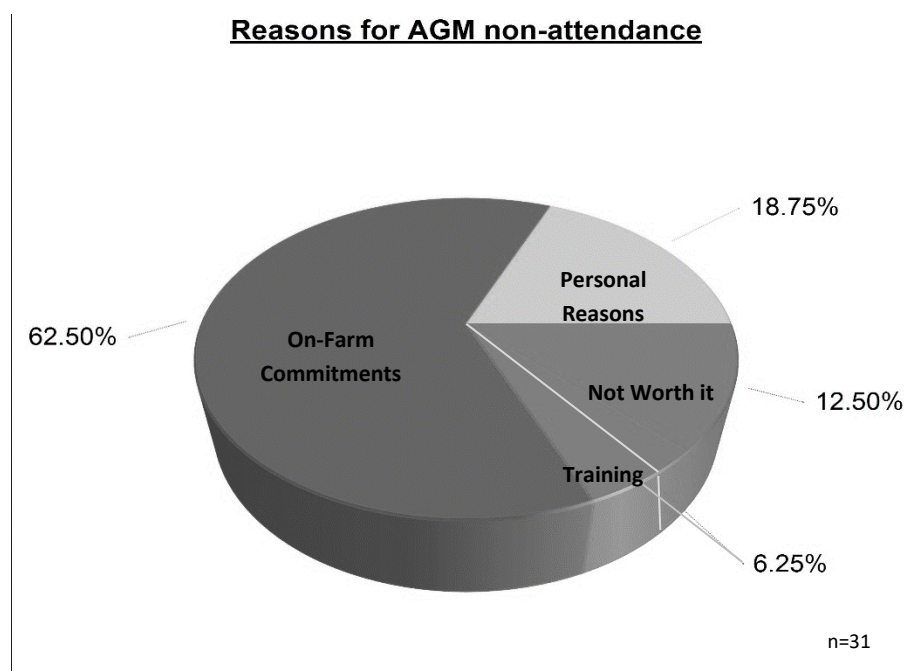


Figure 5. 26: Participant Reasons for Non-attendance at AGM

In general, the comments from those who did not attend the AGM had a common theme of being negative with many members stating that it is scheduled in the peak season and as a result, they cannot attend. Other comments included the AGM purpose as far as the members were concerned, was not being met. One member responded with:

".. didn't feel as though I got enough out of that AGM to warrant sparing the time, to be honest."

And another stating:

"The AGM is not as effective as you'd like."

With a director from a smaller cooperative noting:

".... we are conscious that we're possibly getting a little bit of a drop-off."

and

"Is it that we've got a changing demographic, where a lot of our farm owners are in their 60s, and perhaps they're just not that interested"

Several members had practical suggestions as to how to make it more effective, these include:

"I've often sort of thought late January or early February is a good time to have it."

And

"AGM's never suits everybody yeah so I suggested to them at the last advisory committee meeting and at the last annual meeting that they look to put it online."

On the other hand, the positive comments from the members who attended the cooperative AGM had similar reasoning in that the AGM was only once a year and that there were other meetings during the year which were more effective.

In summary, the AGM is not useful for most cooperative members; they believe that the AGM serves its purpose in smaller cooperatives as a gathering of members, however, for the larger cooperatives the sentiment was that it was not effective, some even stating it was a waste of time. The scheduling of the AGM is problematic with cooperatives scheduling the AGM during the peak farm season, which resulted in low attendance. Additionally, the AGM was said to be more financial and more one-way from the cooperative organisation to the members, the interaction was low and, in some cases, not available. Splitting the AGM up into multiple smaller (for example quarterly) and ensuring that it is not held in the peak milking season would increase participation as can be deduced from the comments of the interviewees.

Engagement with the Cooperative

Many of the members have regular contact with their cooperative. There are different contact types which are discussed below, for instance, it was found that the formal contract with their cooperative included two main categories, the day to day operational contact with the milk pick-up and milk testing and the contact with the directors and the chairman of the board. The other type of contact found was informal, where they usually phoned or met up with the directors and Chairman. Of the contact with the Chairman, the vast majority of the members reporting having positive contact, for example

"... we have a lot of faith in Scott."

and

".. there's never a drama speaking to the chair."

When asked about the contact they had with their director, the comments were similar in

nature to the chairman with many reporting positive contact. A finding that the members felt comfortable enough to call their directors at any time was apparent throughout the cooperatives. For example, members' comments on the directors were:

"I talk to our directors that are for the area, and they're very approachable ..."

and

"... the whole of the board as a whole incredibly personable, very relatable and very approachable."

As well as

"... one of the things I do I do like about the co-op is those farmer directors."

However, there were negative comments that were limited to a few cooperatives in particular, for instance:

"I think you know; there's.....you just wonder how much information they're giving you?"

and

"Sometimes you think they're just telling you all the rosy stuff and not telling you the other stuff."

Other members commented:

"... things start to go wrong. It's like I know who the hell made that decision, you know, we paying you guys good money, we are relying on you, basically, to keep our company strong. And to get the return back to us."

Still, another member stated:

".. we certainly don't see directors like we used to."

and

"...but we certainly don't have that same engagement now. Mainly because the directors aren't farmers and there's less of them."

The negative engagement comments came from Fonterra and Westland, which may be understandable, given the organisational reviews that were underway at the time of the interviews in 2019.

In summary, the contact that members had with the cooperative on a formal regular basis was found to be broad with some members contacting all parts of the cooperative at least once a month.

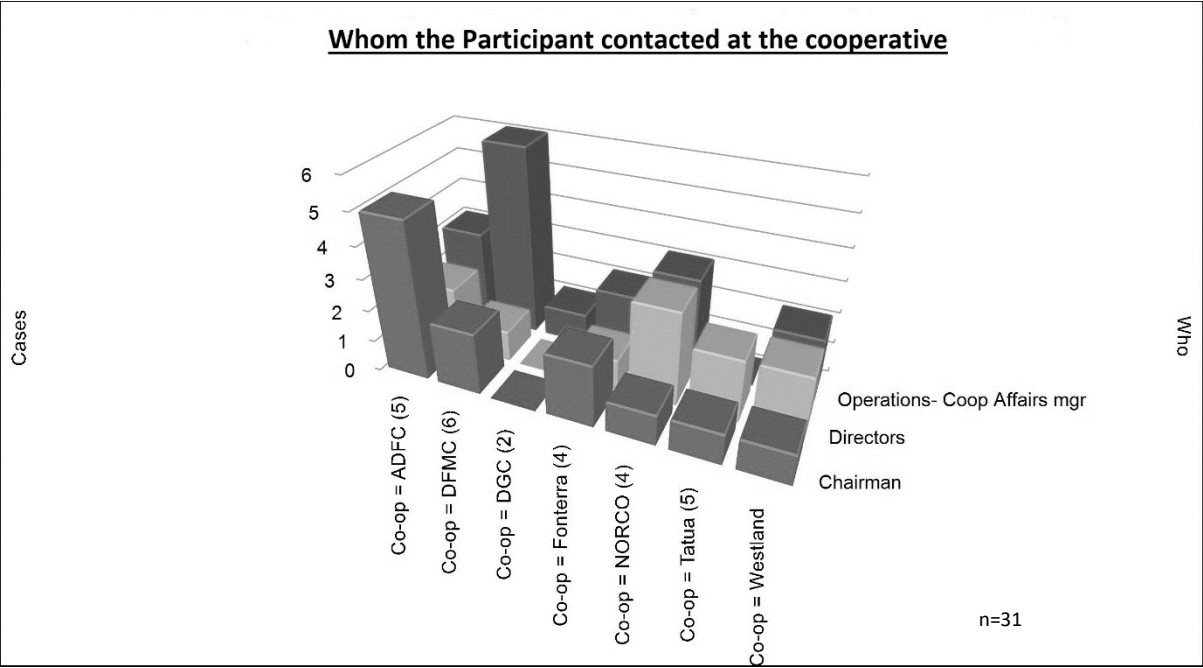


Figure 5. 27: Whom the Participant Contacted at the Cooperative

Taking an informal perspective on contact, many of the members reporting have good informal contact with many parts of the cooperative similar to the formal contact. Members from the larger cooperatives such as Fonterra reported that they had minimal on-farm contact, for example, when probing the interaction with the on-farm representative:

“We have never met him, and so so it's, it's pretty disappointing.”

and

“No, never. The new guy in town that has taken over,”

and another member:

“I haven't seen him.”

Once again, the Westland farmers had similar comments about their engagement saying that they used to get directors coming out to the farms to chat to the members, but that had not happened for a few years.

The supplier meetings are valued by many of the cooperative members as this is where they see they can ask questions and be heard. Most of the cooperatives had at least two supplier meetings per year in addition to the AGM; the Christmas get-together often served as a dual purpose having a supplier meeting then moving on to the social function. Some of the comments about the supplier meeting summed up the general perception of the meetings saying that this was where they got the real information as they could talk to a director who attended, or even the chairman in some cases, and ask them the questions that they needed answers to. This form of communication was seen as an integral part of the cooperative.

When speaking about informal contact, in particular the Christmas get-together, it was found that the members valued this type of social gathering and many of them had made an effort to attend.

Formal contact with the operational side of the cooperative was mainly concerned with milk collections and testing with most members commenting that they were satisfied with the way their queries had been handled and accepted an adverse testing outcome even where the outcome had not been the preferred choice of theirs. Of the total sample, 19 had had an operational query in the past year mostly due to some testing result or change of milk collection time. Of these, most of the cooperatives had resolved the query to the satisfaction with only three members reporting the query had not been resolved to their satisfaction. Out of the total sample, only two queries related to finance or payment type issues.

In summary, as far as both formal and informal contact is concerned, it was found that members preferred the smaller, more personal supplier meetings when compared to the larger AGM. They felt they could *voice* their opinion and be heard more at these forums even though there was no formal voting opportunity. The Christmas and supplier meeting get-together showed the value the members place on interacting with each other and the leadership of the cooperative in a non-formal way. The way the AGM is handled showed that there are two main reasons for non-attendance being that the scheduling of the meeting was

not optimal for most members and the other reason given was that members did not value the meeting as it was rarely effective.

Views on getting more involved in the Cooperative

When asked about getting more involved in their cooperative from a non-governance perspective, many members cited time constraints and on-farm commitment as the reason they could not or would not. This question looked at the willingness of members to serve in roles associated with their cooperative excluding governance roles. These types of roles included community liaison roles and internal roles for communication, some of which were more socially orientated roles. Older members were also reticent to get more involved stating that they had done their time, and it was up to the younger members to step up to these commitments. However, out of the older members who responded positively, there was interest in mentoring the younger members in the long-term interests of the cooperative with some older members already informally doing this. For example, one older member for a larger cooperative stated:

“I’d probably get more satisfaction out of trying to mentor younger farmers than trying to go on something.”

Moreover, another older member responding that he did not have the time, although:

“...I would mentor though”

Although other members stated that their cooperative should be asking them and that they would not volunteer unless asked by their cooperative to get involved. Overall, more members did not want to get involved; more than half of the participants responded with negative answers or with reservations. Those that were serving as directors did not want to get more involved either as they said the directorship was a full-time role in itself. Additionally, those members who were serving on Advisory Committees were in the same way time-constrained and responded that they could not do more than they already were. There were, however, some members who said they would be willing, and it was found that the willing members would, under certain circumstances such as in a mentoring role, to get involved to some degree.

The comments from the members on why they would or could not get involved in their cooperative in a non-governance capacity ranged from the age perspective, as an example:

“Not at my age.”

and

“Not for me I am too old ...”

Others stated that they were not sure of what they could offer or that they were time-constrained.

“I just don't know that I have that much to offer.”

and

“too time-consuming for me to go back and do it again.”

However, when asked the same question of the members but this time asking how willing they would be to get involved in the governance aspects of the cooperative, including serving as a director or serving on a governance committee, the majority of members were positive. The below graph shows the willingness for members to get involved in roles in their cooperative. The finding indicates that governance roles are more highly valued than other community type roles. The responses were from members only; no directors were included.

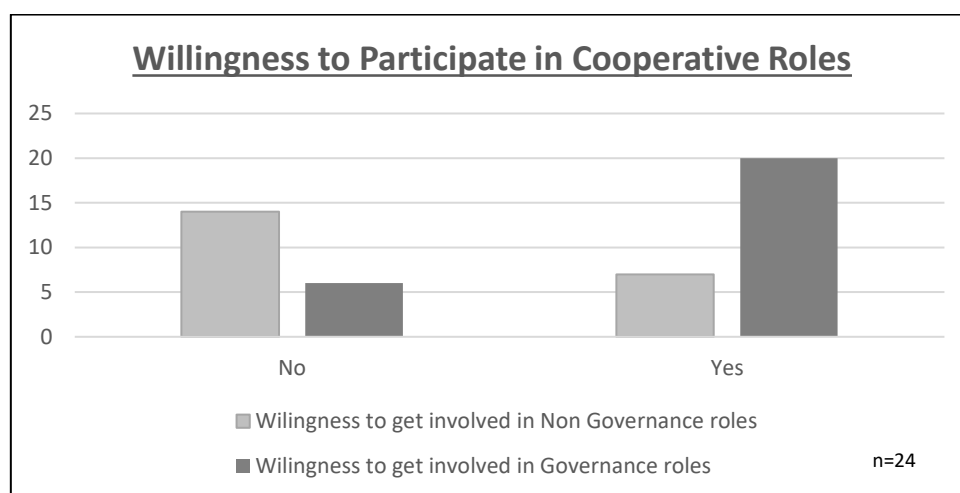


Figure 5. 28: Willingness to Participate in Cooperative

Where the response was negative to serving in a governance role, the reasons given for not wanting to serve on governance roles were from DFMC, where four out of the six participants responded negatively. Two members from the other cooperatives cited that they had served already and so had done their time. Some members believed that they were not qualified for any governance roles responding:

“And being a director, I think you need to have done courses to do it properly. And I haven't done anything like that. I would feel out of my depth really.”

and

“But again, you've got to get the right people. Not just who might have some ability to think through those things, but how you seat them, get them involved.”

Many members cited problems serving in a governance capacity stating that the members were chosen by the board or a committee,

“so, if you were not chosen, you could not serve”.

Other members cited an informal policy of choosing directors, including that members had to be invited by the chairman or board of directors. Other members responded by stating that their cooperatives boards chose whom they would send on a director's course, and as a result, they would not serve unless they were chosen or asked.

In summary, non-governance roles are not as valued as the governance roles with members responding negatively to being involved and giving up their time. However, older members were open to acting as mentors to the younger farmers with some of them from larger cooperatives already involved in informal mentoring programs.

Whereas considering the governance roles, it was found that these are generally more valued than other roles with the member viewing them much more favourably. There were a number of members from smaller cooperatives involved in governance roles such as serving on a committee which had governance responsibilities and as a result, those cooperatives members had not responded positively or negatively. Age was found to be a factor, so too was if the member had previously served in a governance capacity. If the member considered themselves older or had previously served in a governance role, they were no longer willing to serve in any capacity. It was further observed that some cooperatives had moved away from pure member-elected directors by choosing who would go on directors' courses and who would serve; these cooperatives included Westland, Fonterra, and Tatua. In the other cooperatives, any member could be nominated to serve as a director and could be voted in based on a member vote.

5.4.3 Governance findings

This section examines the tangible aspects of membership which included:

1. The policy framework,
2. The constitutional document,
3. How involved the members had been in previous decisions that had been made by the cooperative, whether the member had voted on the decision or not and the reasons behind the voting,
4. What information they had received regarding the decisions,
5. What recourse the members had if they did not agree with a decision or a direction their cooperative was taking, and
6. What involvement respondents thought that they should have in the decision-making of the cooperatives when decisions being made would have a material impact on the farm gate price or returns in general.

Furthermore, the members were asked about their perceptions and knowledge of industry regulation initiatives that were underway at the time of the interviews, the two that were chosen was the Dairy Code of Conduct in Australia and the review of the Dairy Industry Restructure Act 2001.

Policy Framework

The members' knowledge of the cooperative law was examined, their perceptions of how much they knew, if they knew enough, and should they know more about cooperative law.

It is of note here that ADFC in Australia had reincorporated under the Corporations legislation a few years prior when they were considering raising capital to build a processing plant which had later been abandoned. At the time of the interviews, ADFC was still considered a Corporation in the eyes of the law. Both DFMC and NORCO being Australian cooperatives were incorporated under the state-based New South Wales cooperative law.

Notwithstanding the fact that ADFC was incorporated under the Corporations legislation and not under the Cooperative law, the questions directed to the members appraised their understanding of both laws (Corporations Legislation and the state-based Cooperative law)

with additional probing questions asked on the knowledge of the effect of the reincorporation as far as cooperative protections that the law holds for members.

It was found that very few members had knowledge of the cooperative law under which their cooperative operated. The graph below indicates the member knowledge of the law, separating the directors and ex-directors, and the members.

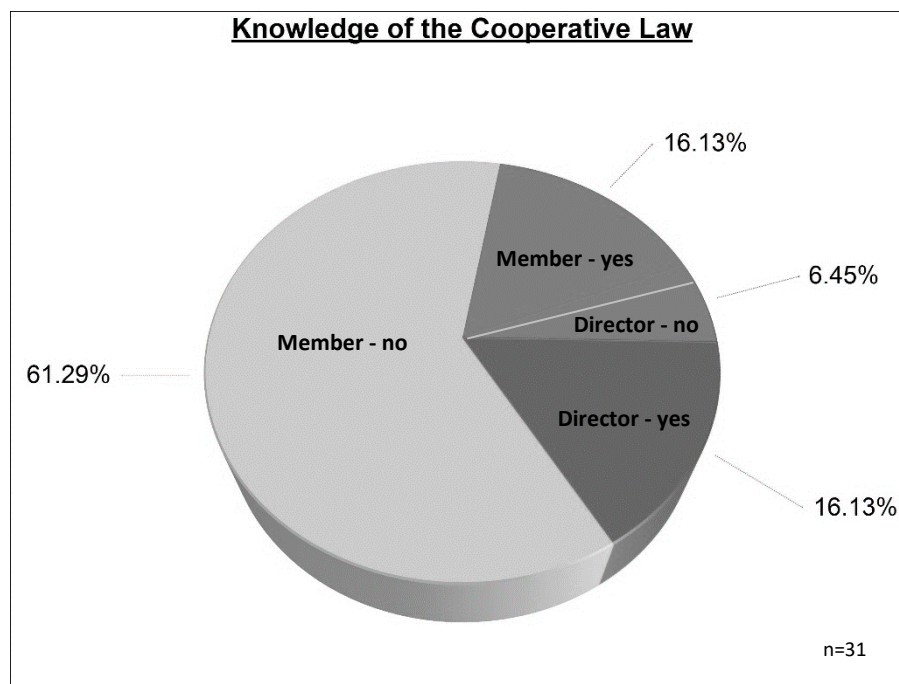


Figure 5. 29: Participants Knowledge of the Cooperative Law

It was observed that the directors had some knowledge of the law either through their directors' training or self-study. However, when it was asked if they thought they knew enough of the law, the majority of them responded that they did, however, when asked about AUCLA in Australia and the structure of the New Zealand subordinate cooperative law (to the companies law), the directors were found to have very little knowledge. Very few members had knowledge of the law, yet two-thirds of the members believed that they should know more about the cooperative law. The third of the members who believed they did not need to know anything further about the cooperative law cited reasons being that it was the responsibility of the directors to know that law. For instance, comments from the members who believed they did not need to know more about the law were:

"... I think we vote for the directors for them to know that."

and

“Well, we've got a company and one of the plants up here and directors are held responsible, and it's probably not a lot more than that.”

Similarly

“Not as a member supplier, no, because those decisions are to be made by the board and management.”

The Australian cooperative members, ADFC, incorporated under the Corporations legislation, was unaware of the cooperative law protections and relied solely on their constitutional document. One of the members stated that:

“Probably farmers, in general, should know more about the cooperative law and knowledge is always good.”

Moreover, other similar comments from the other cooperative members from ADFC indicated that the members were unaware of the differences between the Cooperative law and the Corporations legislation that their entity was incorporated under. This finding further suggested that when the change was made, it was likely that insufficient information was given to the members on the effect that this change might have for them as members.

Constitutional Document

All cooperatives as part of this study have a constitutional document which describes the rules under which members of their cooperative operate under. It is pertinent to note that previous chapters (Chapter-2 and Chapter-3) which dealt with the principles, the law, and the constitutional document, found that the New Zealand Law had no provisions within its cooperative law that a cooperative by law, had to have a constitutional document; however, all four New Zealand cooperatives had created one regardless.

Common provisions contained within most cooperative constitutional documents have provisions or rules for the governing the rights of members and how they can vote, the rules governing shares including the buying and disposing of shares, the rules and details administering milk collection, the timing and detail around annual meetings, reporting and election of director with the rules governing directors and meetings, and how the constitutional document can be changed and the rules regulating how many votes are required for the change to be accepted, as examples.

When asked how much the members knew of the rules, or provisions, governing their cooperative as contained within their constitutional document, the members were found to have very little knowledge. All directors, however, believed that they were familiar with their Constitutional Document. Two members had been trained by their cooperative and had been familiarised with their cooperatives constitutional document. Members responses were shown to be consistent about their knowledge of their constitutional document, for instance:

“No, I haven't read through it, and certainly when we first joined, I glanced at it, but I wouldn't have read anything, so you rely a lot on when you go to AGM's and probably through Ron if there is any queries.”

and

“Not as familiar as I think I should be.”

again

“Not very, to be honest. “

With a few participants saying:

“... only very basic.”

The below diagram shows the familiarity with the constitutional documents, a members-only graph, excluded directors.

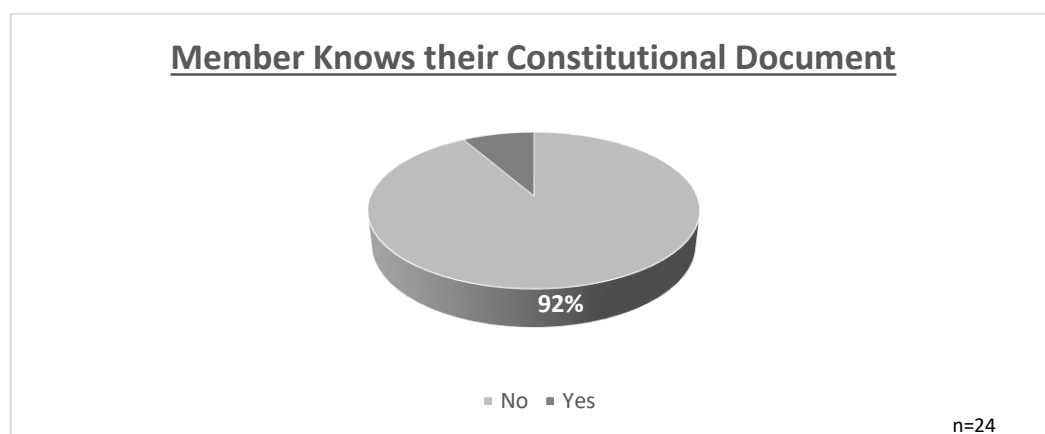


Figure 5. 30: Members are Familiar with their Constitutional Document

When asked if the member would like to know more about their constitutional document by means of a training session given at a central location, the overwhelming response was

positive. Furthermore, the members preferred to have the Cooperative Law explained at this session as well. When probing questions were asked on if the cooperative should provide the training and conduct the session, there was a split of members between those of smaller cooperatives who wanted their cooperative to conduct the training and the larger cooperatives where most members stated that they would prefer the training be conducted by an external independent party. The below graph indicates the participants' response to the question if they would attend a training seminar for the Law and the Constitutional Document; this graph includes directors.

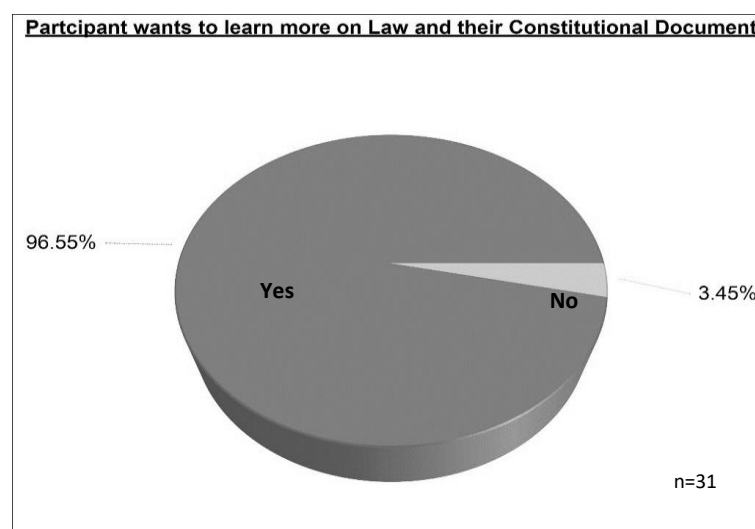


Figure 5. 31: Participants want a Training Session on the Law and their Constitutional Document

There was only one participant that would not attend a seminar on the law and the constitutional document responding by saying he has enough knowledge on both. The participant had served as a director for many years, with one of the larger cooperatives.

In summary, the finding that the knowledge that the members had of the law and their constitutional document was surprisingly low, the members stated quite openly that they had little knowledge of both governance artefacts. Although ADFC was incorporated under the Corporations Legislation, they had very little knowledge of the change that they had undertaken when the move from the cooperative legislation to that of the corporation's legislation. Furthermore, they had little knowledge of the protection that the cooperative law held for them. The constitutional document was not understood as a governance tool for the members, and few of the participants had read it in any detail. The ones that had read the constitution had read it a few years prior even though many of them had approved minor

amendments to the document when voting on the changes. The participants almost all stated that they should know more; some cited the language used others the content as reasons why they did not read it through. However, many of the participants were familiar with the rules around the shares and operational milk collection. As far as learning more, the response was almost 100% positive; all of them acknowledging the lack of knowledge they had in these critical internal and external policy documents. As to who would conduct the training was not consistent except for the difference between the smaller and larger cooperatives. The lack of trust was observed in the comments from the larger, more geographically diverse cooperatives.

Background to major member-impacting decisions by Cooperatives in this study

This set of questions and the resulting findings looked at what major decisions had been made by the cooperative, what information the members had received regarding the decisions, the link to a known strategy that the members had been briefed about, and the communication effectiveness of the decision as it was being implemented. All of the cooperatives in this study had, over the past few years, made significant member-impacting decisions. The interviews conducted used open-ended questions to encourage the participants to talk about decisions that their cooperative had made and their perceptions on the process.

Coop	Decision-1	Decision-2
ADFC	New Dryer + Reincorporate under Corporations legislation	Tiered Pricing (season-high/low)
DFMC	Resign of 10-year Contract	Sale of Lion Drinks and Dairy
NORCO	Coles decision	Increasing the number of Suppliers
DGC	Constitutional Change	New Share Issue
Fonterra	Selling of Assets (Tiptop for example)	Reduced advance pay-out (December 2018)
Tatua	Dryer build – a few years ago	
Westland	Organisational Review	

Table 5. 7: Major Decisions for all Cooperatives

The background of each of the decisions is as follows:

ADFC, being incorporated under the Victorian Cooperative law, which aligned with the Australian Uniform Cooperative Laws Agreement (AUCLA), looked at building a processing

plant after the appointment of a new Chief Executive Officer (CEO) in 2014. As the cooperative required investment capital to build the processing plant, it looked at the capital from internal members and external investors. The cooperative decided to reincorporate under the Corporations legislation in order to attract external investment capital more easily. The members were required, under the cooperative law, to vote on this change and approved the change at a special general meeting. However, the members were not satisfied that this strategy was sound and made many informal submissions to the Chairman, eventually resulting in the CEO being removed and the processing plant plan being abandoned. Additionally, due to contractual issues, one of the main organisations that ADFC sold its milk to, wanted a flatter milk supply with more milk than currently produced at the shoulder seasons forcing ADFC to bring in Tiered pricing. The Tiered pricing would result in farm operations adjustments, including calving schedules and would result in less being paid for peak-season milk and more being paid for shoulder and off-season milk.

DFMC sells its entire milk production to one organisation, Lion Drinks and Dairy (LDD) who is owned by Kirin, a Japanese organisation. The contract renewal came up, and after renegotiation, the cooperative re-signed the milk supply agreement for an additional ten years. However, in late 2018 Kirin decided that LDD was no longer part of its long-term strategy and decided to sell that part of their business operation in Australia. At the stage of the interviews, it was not clear who would be the successful bidder on the LDD business operation. DFMC would be potentially impacted by the sale and thus was considered relevant when asking participants about their governance involvement. Subsequently, LDD was sold to Saputo, a Canadian owned firm that had bought Murray Goulburn in 2017.

NORCO processed milk into ingredients and dairy products as well as supplying milk to a large retail organisation, Coles. In 2017 the contract was re-signed, and the Coles' milk contract with Norco was extended until 2023, with Coles having an option to further extend it until 2026. In effect, this extended the contract for a significant portion of the total volume of milk that NORCO collects by a further 5 to 8 years. Furthermore, NORCO had as part of their strategy, expansion. The expansion would result in a significant number of additional suppliers being brought on, some of these outside their regional area of operation was being considered, some of which was in other Australian states. In June 2019, Coles announced it was going to bypass their traditional source of milk, including NORCO, and concentrate on

soliciting milk directly from the farmers. This event has been included, although this occurred after the interviews were completed; however, the contract still stands between NORCO and Coles.

Dairy Goat Cooperative (DGC), situated in the Waikato, is a goat dairy cooperative. The cooperative has two pending decisions, one being the constitutional change and the other, albeit connected, a new share issue. They have a strategy of expansion currently looking at growing their footprint. A substantial portion of their input is aimed at ingredients for goat Infant Formula.

Fonterra announced in 2018 that it was reviewing all of its operations with the result that many of its assets were to be sold off. For example, the assets included Tiptop, an ice-cream factory situated in southern Auckland, and other ingredients joint ventures in Europe and South America. Furthermore, in December 2018 it was announced by the chairman and the CEO that the advance-payout would be reduced by 20c per kilogram of milk solids. The advance payout is a substantial portion of the total price paid for the milk received from individual farmers and allows Fonterra to pay farmers most of the price retaining enough for adjustments in need. These two decisions have a bearing on the cooperative members in a number of ways regardless if they are considered local, in New Zealand, or foreign, being outside New Zealand operations.

Tatua, one of the smaller dairy cooperatives in the Waikato and operating for more than 100 years, increased the number of processing dryers in 2015 by adding an additional dryer, dryer-3, to their operation which was partially funded by the members. It resulted in the reduction of farm-gate price for a few years, which affected members' on-farm profitability.

Westland members were interviewed in February 2019 before the eventual sale of the cooperative in October 2019. At the time of the interviews, the members had not been told what their organisational review entailed except that it was looking at various strategies. Westland had consistently been the lowest paying cooperative when compared to the other New Zealand cooperatives and less than the other non-cooperative dairy companies collecting contract milk such as Open Country and Synlait. The members were concerned about the outcome, which was apparent in the interviews.

This section looks at the decisions that were made and the member involvement in them, including the information that they received and asked the members perceptions on the decisions. Each cooperative is examined separately as to the member involvement and what communication or information they had received about the respective decisions, refer to Table-5.7 above.

ADFC

It was found that the ADFC participants agreed that they had all voted on the reincorporation of the cooperative in a Corporate entity. However, one of the comments around the information available for the decisions was as follows:

“I don't know if we necessarily got risks, but we definitely got, this was the reason why it was needed, this was perhaps the plan going forward.”

The reincorporation was executed with the next stage linked to it being the building of a milk processing factory (dryer) at a suitable location. Although the planned factory was cancelled before any vote, members' comments on the process leading up to the eventual cancellation indicated a lack of information, one member commenting about the meeting where it was proposed:

“And there was the opportunity to ask the questions. I asked plenty. But yeah, I just never got the answers I was comfortable with.”

On the third decision that ADFC members were involved in was the Tiered-pricing change. None of the members got to vote on this, yet it must be noted at this stage they were operating under the Corporation legislation; therefore, no longer a Cooperative. The members attended a meeting where the decision was presented to them, comments from two members were:

“We had a big meeting for the tiered pricing when it was brought in. “

and

“That's a bit hard to answer because on that milk pricing thing because I was there when it first got presented to us.”

Many of the ADFC participants expressed dissatisfaction with the amount of information that

was given to them about the change in pricing, stating that:

“... I still think a lot of farmers didn't know what was going on. ”

and

“And I think they're all just a bit not sure what was going on. I didn't think it was just me to stand up in front of everyone and sort of say are you aware this is happening? I wanted them to be proactive to ask the question. But nobody really asked the questions.”

and others:

“... not detailed information probably a lot of that done verbally or in a presentation.”

There is evidence that suggests that ADFC made some decisions that affected their members without consultation, such as the Tiered pricing decision. As far as the reincorporation decision was concerned, it was voted on since their constitutional document is explicit, and so is the cooperative law, concerning what members have to vote on by law. The decision to cancel the dryer without a vote indicates that members do have informal options to stop decisions before they are taken, and the data pointed to general dissatisfaction with the strategy. Furthermore, it seems that there was a general lack of formalised information on why the decisions were taken with the cooperative relying mainly on informal questions and answers.

DFMC

DFMC had recently (in the past year), extended the contract with LDD. When the members were asked about the decisions generally, it was evident that members had been told about the decision once it was signed and therefore did not vote on this. When probed about the information received on this decision, the evidence was that there was little information given to members, with one member stating he had only got an email with very little detail. On the information received, some members commented:

“... from a farmer's point of view, you'd say not enough.”

and

“We're being told as much as they're allowed to tell us. They're not allowed to say which parties they're are looking at buying or-- That's what we found. ”

and again

“Personally, I could get a little bit more [information], but I do understand that there are probably some things that they can't tell us.”

On the sale of LDD, which had a potential impact for members, the participants recounted that they had only received emails about the sale saying it would not affect them. Meeting invitations were sent to the DFMC members by Kirin, the holding company of LDD, in which the members could attend and ask questions.

It is apparent that DFMC did not vote on decisions over the past few years that could have impacted them. Furthermore, the members believed that the available information on the decisions that had been made lacked suitable detail as far as the members believed.

NORCO

Norco had not made many member-impacting decisions over the past few years except for the re-signing or extension of the long-term contract that had with Coles. In this decision, no members had voted, and little information was sent out to the members about it, some members mentioning they had seen it first in the local press only. It was, however, discussed at a supplier meeting.

DGC

Dairy Goat was making two decisions that were not yet at the stage that members would be involved. Information had been sent out, and meetings had been held about the changes which were to the constitutional document, which is mandated that it has to be voted on in the DGC constitution. On the matter of a new share issue, it was in its early stages so there was little evidence of whether it would be voted on and if sufficient information had been sent out on it. One of the directors did mention that if the members wanted information on either decision, they could ask for it.

Fonterra

Fonterra had told its members and published articles in the open press that they were reviewing their operation in 2018. As a result of this strategy, many of the Fonterra assets were sold off, including Tip-Top, an ice-cream factory in Auckland. It was apparent that the members had not voted on any of the decisions nor the strategy of the sale of assets. Once the sale had been completed, the members got information on the website, the Fonterra portal, and the Fonterra smartphone app. Some participants were not happy with the decision with one member saying:

“I had a real bee in my bonnet about the TipTop thing, because I just kind of feel okay, if it's not making money that needs to be addressed, but it is a real Kiwi icon thing, and I'm just, you know, I'm just not happy about that being owned by some bloody foreigner, sorry, and not necessarily a foreigner. “

Furthermore, another commenting on the information received about the decisions stated:

“Look, it's pretty basic or minimal.”

When asked about the decision and information received on the reduced payout, one member responded:

“I thought it was a load of rubbish, to be honest.”

The responses indicated that in the decisions discussed by the Fonterra participants, Fonterra generally made decisions without consulting their members. As far as the information received, the comments from the participants indicated that there was a general lack of quality information and seemed to be “one-way”.

Tatua

Tatua, in the course of their decision for a new dryer, had communicated often to their members on the stage and progress of the feasibility study. Members had voted on the decisions before it was implemented, and many supplier meetings were held regarding the new dryer explaining the expected impact of the decision on the member base. The comments from the participants were positive with members stating:

“We were fully engaged with that and the members the cooperative event they voted on it. “

and

"...got lots of information on it."

and

"I would say we are probably getting as much as the as we could legitimately expect to get. There is a fine line between just bombarding people with too much information and you just put it in the Delete box."

and again

"It was well penned at several meetings."

It was found that Tatua involved its members in all its decisions from an early stage with information going out, meetings being held and eventually culminating in a member vote. The effects and the risks associated with the decision were also explained to members before they voted on it.

Westland

Westland had commenced an organisational review and had previously entered into a Joint-Venture with a foreign-owned milk-canning factory. The members were aware of the review and some of the reasons behind it, but no information on what the possible outcomes would be was given to any members. Members' comments about the review indicated a lack of information and transparency as to the progress, the process, and the strategy, some members responding:

"They always said its publicly sensitive, granted, but it doesn't matter you can tell people, so they know what's going on. There's a lot of people with frustration at the moment as there's not enough information and everybody's waiting to March."

and

"... so, we each got an email saying we can't ask these because they can't answer them so people don't ask questions because they can't answer them. I think people are actually as shareholders we should be entitled to an answer by now."

and again

“... we've seen very little, and we won't see anything apart from the party that they deem to be the best option for us.”

It was found that, looking at the review, that members would eventually vote on it which they did. However, there was little in the way of information with the Board citing confidentiality as the primary reason why they could not share any information.

General comments on improving information

Many comments and suggestion were made on the information and communication received by members for major cooperative initiatives. There is evidence that most cooperative members, with the exception of Tatua members, said that more quality information would help them support their cooperative’s decisions and strategies. Information improvement suggestions by participants contained four main themes, Confidentiality restriction removals, more frequent supplier meetings, more transparency and information, and more communication. Examining what the participants had suggested in terms of improvements is shown in the following graph:

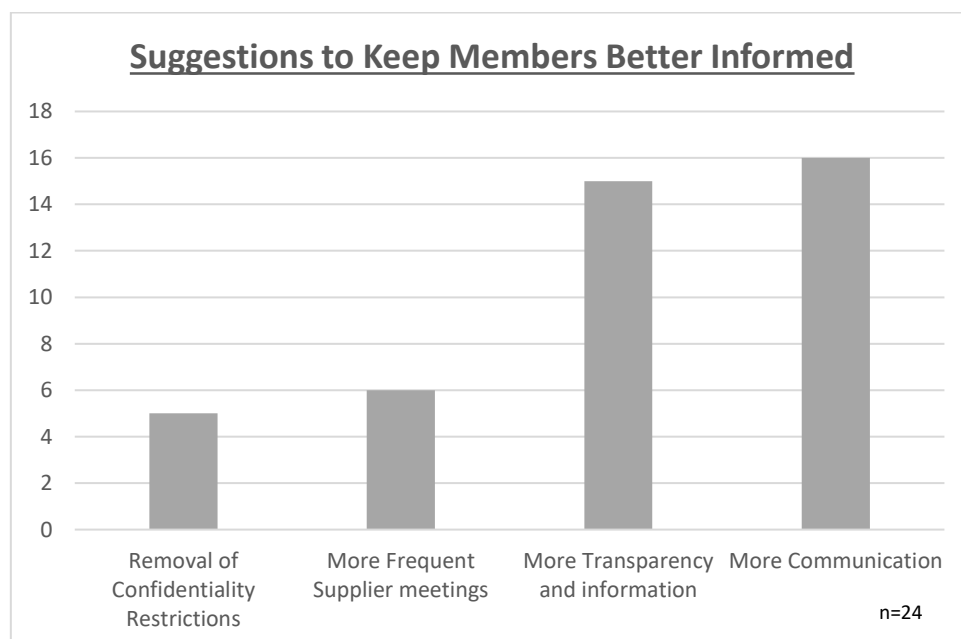


Figure 5. 32: Participants Suggestions on being kept better Informed

When asked about how the members could be kept informed of cooperative initiatives, the participants believed that more and better communication would help. Some comments from the participants on communication included:

"... Sometimes you do feel you are left in the dark a bit... "

and

"They don't give us enough information, as said previously. They tell us what they think we should know."

and again

"Perhaps more insight as to the reasoning for decisions. "

Moreover, on the subject of supplier meetings which was linked by several participants to communication, the responses included:

"Maybe just a few more supplier emails or meetings or something."

"... as we spoke about earlier is that extra supply meeting."

"if you had another supplier meeting, I think it would really help."

"... we have our discussion groups as well, actually. That's another thing ...not as often as we should"

".... even better to do small meetings like that."

The findings are clear that most participants wanted more meetings included in their communication strategy. On the negative side, a number of the participants believed that there was insufficient transparency when getting information from the cooperative, comments such as the below highlighted the problem.

"... which was the first time I had ever seen that letter come to tell us what's happening. I thought that was really good. That is a change."

"The outcome was far less than what I envisioned it to be. I had to turn around and do the stuff myself."

"I wish we could get be getting more of this ..."

"So, at times, I'm not 100% comfortable with the transparency. "

This finding, read in conjunction with the comments above, indicates that there is a lack of trust, which was mainly confined to the larger cooperatives once again. The removal of confidentiality was also seen as an adverse finding in that the participants who suggested this to improve overall quality and information believed that cooperatives used this as a reason not to communicate their decisions.

“They tell us what they think we should know.”

“But we actually need to know some of the details.”

“... they don't really want to disclose that ...”

“... and they are claiming ... as its strictly confidential ...”

“Well, that's the thing, very little because it's confidential to the parties involved.”

“... mindful of the commercial sensitivity everything.”

“They always said its publicly sensitive...”

Additionally, it was found that the member participants from the smaller cooperatives tended to view the information received more positively. The only positive comment on the quality and regularity of information received was from Tatura, where the participants' perception was positive. Comments from a few respondents included:

“... got lots of good information on it.”

“It was well penned at several meetings.”

“Heaps [of information]”

“We were fully engaged with that.”

The following graph shows the perceptions of members on significant decisions. The question asked was if they had voted on these major decisions. This was a member-only question; it was assumed that directors voted amongst themselves on these decisions.

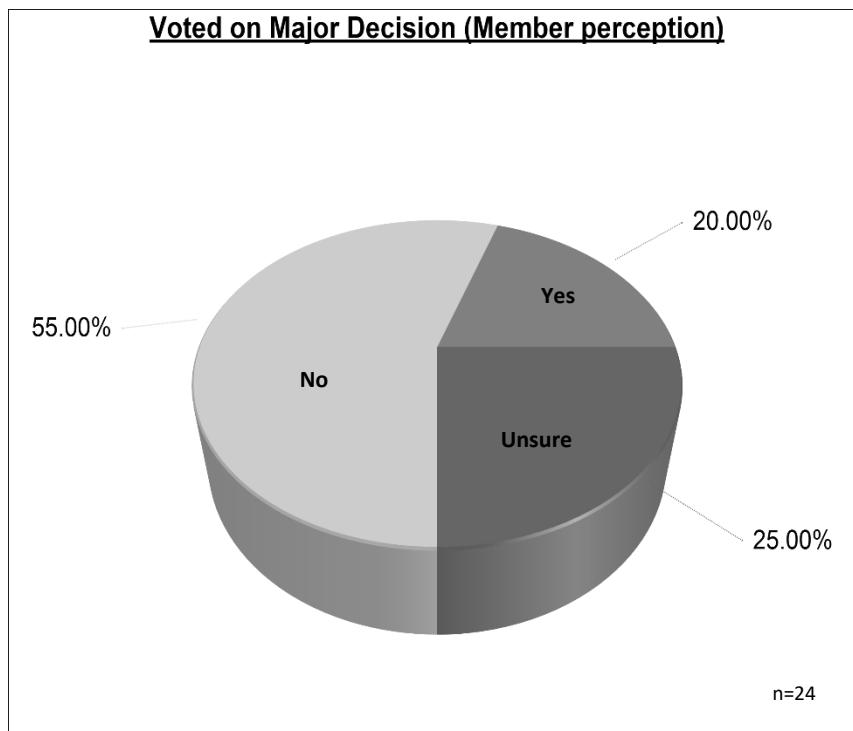


Figure 5. 33: Voted on Major Decisions

In summary, this section found that members rarely vote on decisions that a cooperative takes even if that decision could have a significant impact on member-farm profitability. Furthermore, there was a lack of information on the decisions, including the process, the rationale behind the decisions, and the specifics of implementation. As a result, a cause and effect finding was that participants believed they did not get enough information, there were not enough communication-type meetings, there was a lack of transparency and therefore trust especially in the larger cooperatives. Certain cooperatives used confidentiality as a reason not to involve or inform their members. The suggestions for improvement matched these in that members should be more involved in decision making, more communication was required before a decision was to be taken, transparency in the process, and that a compromise should be reached in the confidentiality of information when negotiating contracts. Tatua was an exception to this where all the participants believed the communication was adequate and that the cooperative kept them well-informed. On voting, the finding is that there is an inconsistency in most cooperatives as far as when members vote or not, with the default position being the board takes the decision and, sometimes, informs the members. It seems that if the constitutional document dictates a vote, then that is

perhaps the only time that a vote is taken. Even where there was a significant decision to be made, the participants were unsure if a vote was in fact taken which can indicate that members were perhaps not involved or they decided not to involve themselves due to a lack of participation. In the next section, member recourse in large cooperative critical decisions is examined.

Member wants to vote on significant Decisions

Participants were asked if they should be involved in those decisions that affected their farm gate price, in other words, major farm-profitability impacting decisions, the responses indicated that they wanted involvement with a low percentage wanting something else. Some farmers said that the members should leave it to the directors, and others stated that it was not practical, the cooperative should just get on with it. Figure-5.35 below displays responses based on the question of whether members wanted involvement in major decisions.



Figure 5. 34: Members wanting Involvement in Major Decisions

Members were adamant in their involvement in the major decisions. The question was framed as a major decision that substantially affected the farmgate price, not the operational decisions that the cooperative organisation made to keep the cooperative efficient. Examples of the responses included:

“Absolutely, it's my money. It's my product. It's my money, not theirs to decide how to use it...”

“.. talking about the Constitution, they must be rules and regulations within that, which say, okay, you must go to your suppliers if you need to make a decision about this the source and this and that..”

“With respect to consultation, prior to the decision being made, yes....”

Other participants, which were a minority, believed the decisions should be made by the directors and responded with:

“I think if also you've voted directors on to represent you, I think to a point; we should leave them to make those decisions.”

“... we do have a vote because we elected our directors ...”

When members were then asked about what type of involvement they should have, the participants responded with three different types of answers, some believed they needed to vote on it, other believed that information was sufficient, and others believed they should get nothing. The majority wanted a vote on the major decisions as can be seen by Figure-5.36 below.

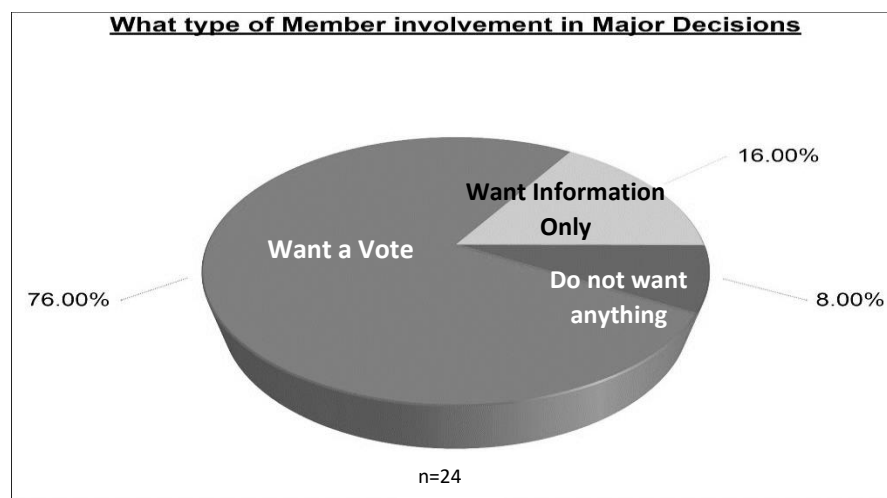


Figure 5. 35: What type of Involvement Members want in Major Decisions

The participants who believed that the involvement should be left to directors or that it was not practical to involve members in decisions even if these were major decisions that had the potential to impact farm-profitability, all came from larger and more geographically dispersed cooperatives. Furthermore, it was of interest to note that all seven director-participants wanted the members to have a vote as well. No directors suggested that members should not be involved or should not have a vote, some directors stated that they were never sure that

the decisions they were making suited their members, and they would appreciate more member involvement even in minor decisions.

Member recourse in Decisions

Members need to be able to clarify the rationale and the decision-making process. This section looks at how participants handled a query, what options were open to them, and what the result of the query was. Most of the participants responded that they would phone the chairman directly and ask for clarification; others said they would phone their local director or someone on the board of directors. Other members stated that they would bring this up at a meeting, meaning it would be mostly be brought up at the smaller supplier meetings. There were a few participants who stated that at that stage, they would exit the cooperative if they were in disagreement with a particular decision that affected them. The below graph indicates what members would do when they disagreed with a major decision that their cooperative had taken or was about to; this question assumed they had no vote. The options that participants offered were varied; however, many members suggested similar recourse actions.

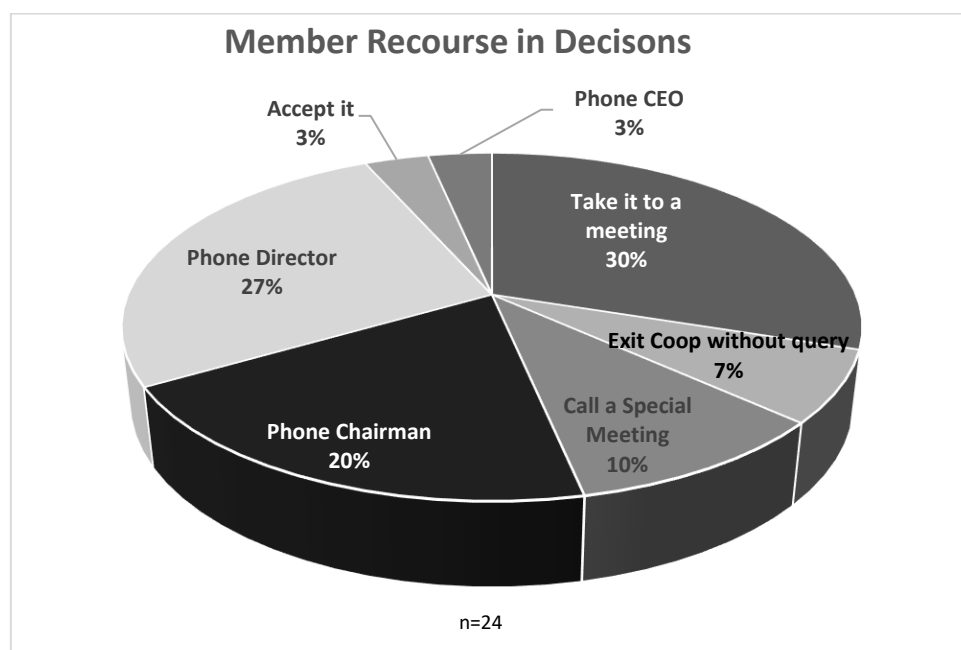


Figure 5. 36: Member Recourse-type in Major Decisions

There were inconclusive findings on which participants from which cooperatives would take specific actions with participants from all cooperatives spread between the major recourse actions.

In summary, this section found that decisions are being made by the board as per the previous section; however, the opportunities for recourse and oversight by the cooperative members are limited due more to the fact that most cooperatives, including the smaller more centralised ones, do not have a well-defined grievance process for members to use. As a result, a secondary finding is that members often get frustrated with their cooperative when decisions have been made, which can impact farm-profitability or operation, as was found in the Engagement section above. This lack of decision involvement and recourse can affect many different aspects of members' perceptions and sentiments.

What involvement is needed by participants for major farm-impacting decisions

This section looked at what involvement members should have in the making of significant farm-impacting decisions in their cooperative. On decision that would materially impact the farm gate price of the members, it was found that a vast majority of participants, 75%, wanted to be involved with of the remaining 25%, 18% wanted it left to the directors with 7% saying it was not practical but offered no view on who should make the decisions. Most members were adamant about their involvement, some notable comments from participants were:

"Absolutely, it's my money. "

"Absolutely yes. "

"Well, yes we should be involved, but we're probably, we're not."

"On major decisions, yes."

"With respect to consultation, prior to the decision being made, yes."

One of the interesting findings was when the director participants were asked if their members should be involved in these significant decisions, all of the directors said they wanted member involvement with six out of seven saying they wanted members to vote on the decision as well, with one saying the members should not have the final say. The caveat in these decisions, in the opinion of the directors, was that members would not be involved

in every stage of the decision making process with involvement only coming in at the last stage where the board of directors would present a few options to the members who would then vote on their choice. The directors, in this final stage, would recommend a course of action with the rationale behind it as long as sufficient information could be sent out to the members for them to familiarise themselves with the various options prior to the meeting and vote being held. Some comments from the directors explaining why they believed members should be involved included:

“... you must go to your suppliers if you need to make a decision about this.” and

“I think we should let the board sort out options. And once they are comfortable with the management on the board that these are best options for us. And then they should do what they did. I can say here is option A B, what do you think? Our recommendation is this.... you can vote on it.”

One finding was clear, and that was regardless of whether the participant agreed with voting on the decision or not, all participants agreed that information and communication was necessary prior to any decisions being made. In this way, they stated that they could have input to the decision, and therefore the decision-making process would be transparent. Comments about information dissemination included:

“... that type of information gives you a better feeling.”

“... should be given all the information all the time because...”

“I think you should be informed about it ...”

“... keep that information coming to us then spend...”

In summary, most members believed that they should have sufficient quality information from the cooperative on significant decisions prior to the making of these decisions so they could assess the impacts to their farm. Furthermore, it was found that the majority of the members expected and required a vote on these decisions. Additionally, an additional finding was that the directors that were interviewed wanted members to have a vote on these significant decisions. Those members who stated that they wanted the directors to make

these decisions “as this is what they are paid for”, still wanted to have access to information on the decision even after it was made. The members did, however, suggest that the directors, in their role, should come up with a shortlist of options to present to the members for a vote and not involve the members through the entire process as it would be, in the words of a member-participant, “not practical”.

Participant Perceptions on the Use of Technology to support Cooperative Governance

Previously in the demographics section, it was found that almost all the members owned a smartphone and had access to a PC/ laptop in their home office. This section asked the Participants what their views were on the use of technology to extend and supplement the current governance practices at their cooperatives.

The first question asked what their perceptions were around the use of videoconferencing to allow members in remote regions or even those who could not leave their farm for a meeting. The responses found that the larger cooperatives all believed that members should be allowed to attend using available technology as far as video-streaming on their smartphone, or PC/laptop, or even a TV in their house. Those members who had come from a smaller, more centralised cooperatives generally did not believe that this would be good for the membership base as a whole as it negated the effects of personal contact. However, directors from all cooperatives, including those from small more-centralised cooperatives, believed it would help them in having board meetings and could be extended to members as well. Overall, the finding is that generally for large, geographically diverse cooperatives, participants wanted their cooperative to implement a videoconferencing or a video streaming service to accommodate members. The graph in Figure 5.37 below indicates preferences for small vs large cooperatives using a technology solution to supplement their governance meetings.

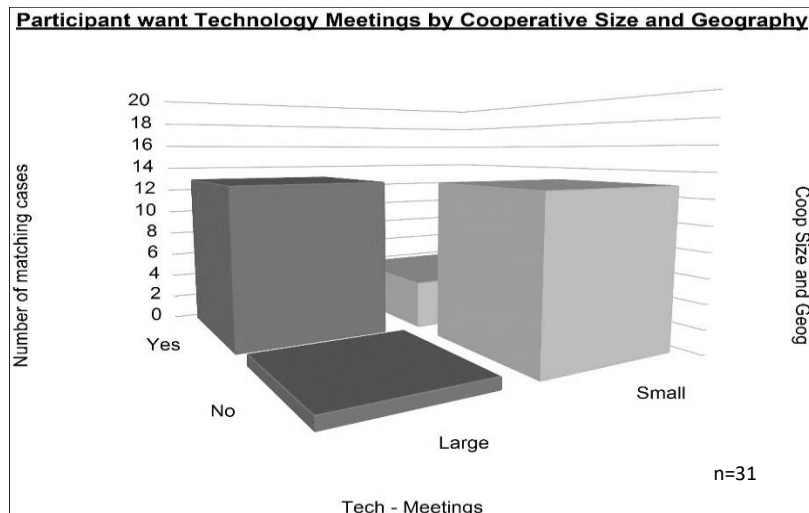


Figure 5. 37: Technology Meeting Requirements by Cooperative Size and Geography

When asking participants if they would use an app on their smartphone to get information on a resolution of the cooperative, to vote, or to request clarity the finding was an overwhelming response of ‘yes’. This voting smartphone-app would be used to supplement the one-man-one-vote show of hands or the use of milk shares used in polls. The below graph displays participants preference as to the use of a voting app; three participants declined to respond.

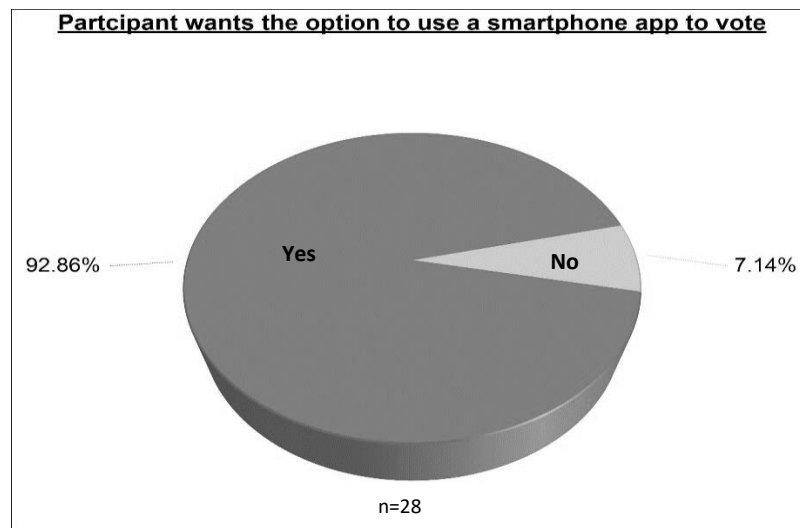


Figure 5. 38: Technology Meeting Requirements by Cooperative Size and Geography

Of the two participants who said that it was not an option they would require, one wanted a paper vote, and the other believed that a show of hands was a more honest way to approach voting.

In summary, the participants want the use of technology to be considered in cooperatives, including video conferencing and the use of a smartphone app to vote on. Even the smaller, more centralised cooperatives participants said the voting app would help as they could use this app when attending meetings and it would not detract from the social networking aspects of their member base. Two members pointed out, both from larger geographically diverse cooperatives, that the use of an app would be preferred as they did not always trust the voting system; they did not know who had voted when asked for a show of hands and sometimes they believed that the resolution passed even though less than a majority had raised their hands. Additionally, another member pointed out on a show of hands more than one person from the same farm could vote, even if they were not supposed to, without anyone knowing. On the matter of polls, the same participant mentioned they could not know who had what votes and this app would increase the transparency rather than relying on officers manually totalling polls.

For directors, they all agreed that the use of technology in meetings and voting would be a good option to have. They further mentioned that it could be an option for their board meetings as well. However, one director pointed out that they would need to know who was in the room when using the video conferencing to ensure confidentiality of information was not compromised and another commented on the use of the app would have to be guaranteed safe enough for use to protect confidentiality and data.

How informed are Cooperative Members on Industry changes?

This section looked at two major regulatory initiatives, the Dairy Code of Conduct in Australia, and the 2019 Dairy Industry Restructuring Amendment Bill (No 3) of 2019 (DIRA, 2019) in New Zealand.

The Australian initiative was enacted in 2020, Competition and Consumer (Industry Codes—Dairy) Regulations 2019, which would enforce certain codes of conduct for all processors. This code of practice was not limited to cooperatives but involved all dairy farmers who supplied milk to a processor or processors. It was seen as an initiative coming out of the failure of Murray Goulburn in 2017.

It was found that most while participants had heard about the Competition and Consumer (Industry Codes—Dairy) Regulations 2019, (DCoC), more than half of the participants had not read it any detail, with some commenting that they were not interested in it. It was clear from the answers that the cooperatives had left it up to their members to get involved or not, although they mostly did not know of the details of all the proposed provisions. Those that had read the proposed DCoC had attended meetings; however, most participants that had some knowledge of it were cynical about it saying:

*“.... Government, as soon as it's got government anything government touches goes to ***. That's how I feel now. They try to do something with one hand, and they lose it with the other.”*

“... my overall view of it now is that there's so many splinter groups that they're trying to include too much in it, when they should be getting it back to basics, the more rules you put in, the more difficult it becomes to manage.”

“I worry that they will have a negative impact on opening milk price, two of the mechanisms particularly.”

The New Zealand initiative was an examination of the current provisions of DIRA to understand if changes were required. In 2018, a Terms of Reference (ToR) was published for consultation. The ToR proposed changes to the original act, Dairy Industry Restructure Act 2001 (DIRA, 2001) to remove an expiry date whereby DIRA would be repealed for the South Island in May 2019, the open entry and exit clause were modified to allow Fonterra to ensure that the milk collection met all standard including environmental, animal welfare as examples, and the removal of the obligation Fonterra has to supply milk to independent suppliers in part. Fonterra currently supplies milk to Tatua, Dairy Goat Cooperative, and other independent non-cooperative dairy processors.

When the participants were asked about their knowledge of the ToR and proposed changes to the Act, the finding was that besides a minority of New Zealand participants, the remaining participants, including those from other New Zealand cooperatives, knew of the proposed changes and most were quite familiar with the ToR. Comments from Fonterra participants included:

“I'm pretty familiar ...”

“Oh, reasonably, I think. “

Of interest was the comments from other cooperative participants, excluding Westland, which were:

“So Yeah, actually, when you talk about the DIRA and our company. Yeah, please leave it alone which is unfair...”

“I can't actually see why our coop should get cow's milk for a certain price. Anything else I'm just marketwise. I mean, it was good for us. Yeah. But I don't think it's just and equitable really...”

“I don't think Fonterra should have to pick up anyone's milk for various reasons...”

All participants from Westland cooperative responded by saying the proposed changes to DIRA was not anything that affected them, so they had not read it. Interestingly, before the amendment came into force in June 2019, the Westland farmers could have approached Fonterra to join the cooperative, an alternative cooperative, and Fonterra would have been forced to allow them to join; with the changes to DIRA, this would no longer be possible if Fonterra responded in the negative.

In summary, it was evident that the cooperatives did not assist their members by analysing changes to the DCoC in Australia and the proposed changes to DIRA in New Zealand and send out the information. The strategy that all the cooperatives took was to leave it to the individual members to read, or not, the documents and make their mind up. The finding further confirmed that Fonterra was seen by all participants, except Westland, as being necessary for New Zealand with some comments by non-Fonterra participants including:

“We are really for a strong Fonterra. I think that is pretty crucial to New Zealand's dairy industry.”

“My feeling is obviously a strong Fonterra as a strong industry.”

Other responses, including the agreement with one of the proposed changes stating that it was unfair that Fonterra had to pick up milk from “dirty” farmers as it was Fonterra’s reputation that was being impacted.

Perceptions of supporting policy changes

The final question asked the participants what laws or regulation or policy framework/s should be changed. In other words, what government support to change policy would help them feel more part of their cooperative. Two major themes came from the answers to this question, the first being that the participants wanted more ownership-control, and the second theme was that the large retail companies in Australia had too much power and were using their scale and size to drive down the farm-gate price for cooperatives and other processors adversely. Other common responses included environmental concerns, farm invasions, and DIRA in New Zealand. Some responses included:

"... the laws around control. "

"The law should align more with the owner to give you more rights. "

"Owner-control is probably the one you ..."

"Control of ownership is always something in the back of my mind."

"Milk supply price almost is predatory pricing."

"... the abuse by the supermarkets in our community."

"The other really, really big thing, must be getting this right this environmental."

"I guess there is a lot of stuff coming at us at the moment in the area of the environment. "

"They should change DIRA."

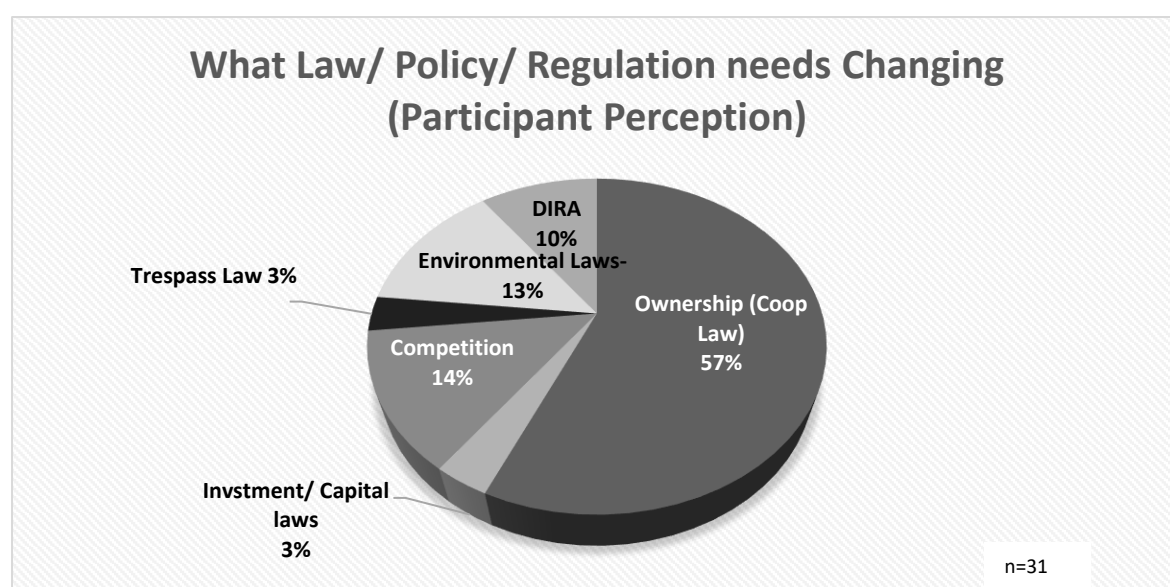


Figure 5. 39: Participant Perceptions on what Law/ Policy/ Regulation needs to be Improved

5.4.5 Findings Summary

The findings section, being the largest, has analysed the findings from various perspectives and demographics. It is clear from the findings that many of the responses were split between the large-diverse cooperative and the smaller, more centralised cooperative. Furthermore, the finding that cooperatives engagement remains problematic and yet the participants did not see it as a complex problem to be solved. Their suggestions on how to better engage, feel more part of their community, and participation, was of note. Governance in cooperatives remains a problem, findings that in most cases, cooperative members do not have a say in their cooperative's decisions that could affect their farm-profitability and therefore, livelihood was apparent. Furthermore, it is clear the trend indicates that the vast majority of members do want a say, and additionally, the directors want the members to be involved in large decisions as well.

Members' knowledge of the law and the constitutional document is found to be vague and not sufficient; the members do not understand their rights as far as policy documents are concerned, and therefore they do not know how to apply or enforce their rights. The laws that were needed changing mostly centre around the laws of ownership. The control of cooperatives seems to be delegated to a few directors who, especially in large, diverse cooperatives, sometimes hide their decisions behind a veil of confidentiality which all contributes to the eventual decline of the cooperatives as members become more distanced.

5.5 Discussion

This chapter takes the literature review and the findings from the above sections and links them to confirm or refute the major themes. The structure of this chapter, Discussion, firstly examines the overarching Research question and Hypothesis and then breaks down the research mentioned above questions into Subordinate Research questions with the related propositions for each of the research questions to understand their relevance to previous studies. The most important findings are summarised in tabular form (Table 5.9) below, comprised of the major findings from each of the Findings sections; this will be used as a guide to argue the case that they confirm the propositions, that they do not support the proposition, or they do not support previous studies.

Finding Number	Finding Section	Finding Short Description
1	Engagement	Small Cooperatives have higher loyalty scores than larger cooperatives
2		Large, Geographically Diverse Cooperatives have lower loyalty scores on average
3		Members rated Fonterra and Westland of the lowest as far as satisfaction is concerned. Both cooperatives are undergoing a structural review
4		Tatua scored the highest with satisfaction rating mainly due to the members' community being fully engaged.
5		While most members attended the cooperative AGM, the participation was highest from smaller cooperatives and least from geographically dispersed cooperatives.
6		The main reasons for non-attendance were due to on-farm commitments as the AGM was scheduled, for all cooperatives, in peak season.
7		Generally, the AGM effectiveness perception was negative.
8		Cooperative members contacted a range of people within their cooperative regularly; this was seen as an essential facet of their relationship.
9		Members were generally not willing to get more involved in non-governance roles within their cooperative, mainly due to time constraints.
10		Members are generally willing to take on governance roles within their cooperative, including serving on the Board of Directors.
11	Governance	Members' knowledge of the law that their cooperative was incorporated under was seen as limited. However, directors generally were more familiar with the cooperative law.
12		The vast majority of members were not familiar with their constitutional document ("Rules" in Australia; "Constitution" in New Zealand)
13		An overwhelming majority of members wanted to learn more about their constitutional document and the law their cooperative was incorporated under.
14		The top four items that members stated would benefit them in information sharing by the cooperative was: <ul style="list-style-type: none"> • Removal of Confidentiality restrictions • More frequent and smaller supplier meetings • More Transparency and information • More communication
15		Generally, members did not vote on major decisions that the cooperatives made; the exception to this was anything related to constitutional changes or something that was mandated in the constitutional document.
16		Generally, participants believed they should vote on major decisions and further wanted communication in this regard prior to any meeting or vote being called.
17		The recourse that a member had when clarifying or querying a decision was unstructured pointing to a lack of process in all cooperatives in this study.
18		Members were split on the use of technology-based videoconferencing to supplement meetings. Larger, more dispersed cooperatives were positive about the use while smaller centralised cooperatives believed that this might detract from their member community contact.
19		Members generally believed that the use of a smartphone voting app would assist in the voting process. They further believed they should have the ability to vote on many
20		Cooperative members do not keep themselves abreast with regulation and policy changes that can impact their farm operations.

		Furthermore, members believe that the cooperative organisation should keep them informed about any industry changes and explain these to the members preferably in meetings where they can ask questions.
21		Members when asked which law they believed should be changed to support them overwhelmingly responded ownership, this is usually covered in the cooperative law.

Table 5. 8: Summary of Findings

As expected, many of the findings overlapped as the questions that were asked, including the probing or clarifying questions, were designed to understand the participants' responses from various perspectives. Many minor findings were not tabulated above; however, some of these will be discussed below in the linking of previous research and this study. The next section looks at the research questions, how they are broken down, and how they are linked to other studies that have been conducted in other regions around the world.

5.5.1 Research Questions

Initially, the research proposal had three parts to the overarching research question which considered from a macro-level, cooperative membership challenges and opportunities. The questions, being broad had to be broken down to more discreet elements which to enable a more granular study. The Overarching Research Questions were proposed as follows:

- *What are the governance challenges and opportunities associated with dairy cooperatives in New Zealand and Australia?*
- *What factors influence these issues, and to what extent are these issues related to cooperative governance?*
- *What is the optimum governance framework for cooperatives?*

This was then supported by the Overarching hypothesis, which was additionally broad for the purposes of this study and had to be broken down as well. The initial Overarching Hypothesis was proposed as follows:

New Zealand and Australian cooperatives are not always aligned to the International Cooperative Alliance seven cooperative principles for good member governance. Farmer-members are not always aware of a decision that the cooperative business structure legitimately makes in the course of the business operation which could directly or indirectly

affect farmer income and viability. Furthermore, the law and cooperative constitutions which are foundational elements for farmer governance are sometimes not effective.

To enable a thorough study especially for the interview chapter, the research questions were broken down into those questions that examined cooperative member perceptions and sentiment, members governance and actual participation in the cooperative, the alignment of the participant to a framework by Limnios et al. (2018), and the support that they believed they required from the regulators and government to more fully enable the participants as cooperative members. As a result, the research questions were broken down into nine discrete questions covering the categories as mentioned above of membership which is supplemented by a further 35 propositions. The propositions take a granular view, some of which are linked to previous research in other regions. The structure of the remainder of this chapter looks at the subordinate research questions and their respective propositions to explore cooperative membership. The Subordinate Research Questions are in the format of S-RQn, where n is the number from 1 to 10.

S-RQ1: How do members perceive their cooperative in terms of their willingness to continue in their cooperative as a member?

This question examines the perceptions and reasons for the members continued loyalty for their cooperative.

Proposition a: Loyalty of Australasian members is related to the size and geography of the cooperative

Feng et al. (2016) found that in an empirical research study conducted among Swedish grain farmers, there was a positive link between the amount of social capital a member has invested in their cooperative and their loyalty. Furthermore, the authors found that social capital, is linked to, what we term as loyalty in this study, the size of the cooperative and how geographically dispersed the cooperative membership is. They found that the more centralised the cooperative is in relation to their members, the more involved the members

were in the cooperative and therefore, the more participation they had in their cooperative. The findings were confirmed in part in other studies (Grashuis, 2018, Jussila et al. 2012, Reynolds et al., 1997) where the geographical spread of membership was linked to poorer social capital and therefore reduced loyalty.

In this research study conducted in Australasia, it was evident that from the findings, loyalty was higher in smaller more centralised cooperatives (mean score of 8.3) than those cooperatives that were large and had a dispersed membership base (mean score of 7.6). The trend confirmed the previous studies.

As a result, *Proposition-a* is confirmed.

Proposition b: Loyalty of Australasian members is also related to the amount and quality of contact with the cooperative organisation.

Other studies have attempted to understand member loyalty from the perspective of regular contact and communication with their cooperative representatives. Puusa et al. (2018) found that trust was positively linked to all forms of commitment of which continuance commitment, or loyalty, was one. In other research, the link between commitment to their cooperative was found (Barraud-Didier et al., 2012). Trust is linked to loyalty and trust that a member had for their cooperative manager was found to be linked to communication that the member had with their cooperative and that the cooperative had with the member in another study (Xiang & Sumelius, 2010).

The study of Australasian cooperatives found similar trends with members stating that their loyalty was affected by the lack of information and communication they had expected but were not receiving from their cooperative manager. Members whose loyalty was in question stated that they were ready to leave the cooperative as often they had no communication or there was a lack of information from their cooperative. In the case of Australasian cooperative members, a trend was found linking communication and loyalty.

Therefore *Proposition-b* is confirmed.

Proposition c: Loyalty of Australasian members is higher if they served on a committee or were directors or ex-directors.

Gray and Kraenzle (1998), in an empirical study conducted in America, found that the serving on a board or a committee was important to build social capital as serving members would identify with their cooperative more than those members who did not serve the cooperative in any capacity other than being just members. Gray (2011) found that serving on a committee, or a board of directors, positively influenced member participation which was linked to trust in another study (Barraud-Didier et al., 2019) which in turn was found to be linked to loyalty in the same study.

In Australasia, the research showed a trend whereby members who were serving as directors, ex-directors, or actively serving a committee of sorts in the recent past, loyalty was substantially higher generally (mean score of 9.3) when compared to those members who had never served on a committee or a board of directors (mean score was 7.7). Serving on a committee or serving on the Board of Directors in Australasia, as in other regions, shows a definitive trend of increasing loyalty for that member.

Therefore, *Proposition-c* is confirmed.

Proposition d: Satisfaction of farmers is related to the farm gate price and the operational, financial performance of the cooperative.

Dakurah et al. (2005) found that satisfaction of a member can be linked to the operational, financial performance of the cooperative, this finding was confirmed by a later study (Carr et al., 2008) where a member's satisfaction was positively linked to the cooperatives success or operational performance. Additionally, another study (Bhuyan, 2007) found that a member's dissatisfaction with their cooperative was found to impact their loyalty negatively. Furthermore, a study in America conducted by the United States Department of Agriculture (USDA) found that member satisfaction was correlated to satisfaction with the cooperative's milk pricing policies and that their cooperative was returning the best price for the members' milk. Osterberg and Nilsson (2009) found in their research that members' satisfaction was linked to farm profitability.

Satisfaction for Australasian cooperatives, in contrast to the finding that loyalty was higher for those members serving their cooperative in some way, indicated no difference between those that were serving their cooperative in some way and the members who were not. Furthermore, there was no trend found that linked satisfaction to loyalty; in fact, the converse was found whereby even if a member's satisfaction was low, it was possible that the members' loyalty could remain high. The finding of the weak linkage between satisfaction and loyalty for Australasian cooperatives was found to be similar to a finding by Puusa et al. (2018). In this, the Australasian study, members required a good return on their product in order for them to maintain a positive satisfaction rating, milk price being one factor that was repeated regularly.

In this case, *Proposition-d* is confirmed as was the case with other regions; members' satisfaction is correlated by the farm-gate price for their milk; and the overall cooperative financial performance.

S-RQ2: What strategy is employed by the cooperative organisation to maintain a relationship with their members?

Keeping the members engaged and “connected” to their cooperative is vital for the continuance and overall operational and financial performance of the cooperative. Different strategies have been employed by various cooperatives to maintain, increase or improve member relations; this section explores the findings from the research study and contrasts these with other studies conducted in other regions.

Proposition e: Member participation at the annual meeting is problematic, especially with larger cooperatives

Gray and Kraenzle (1998) found that meeting attendance was linked to their relationship with their director in a study of American farmers. In another study (Xiang & Sumelius, 2010), it was found that meeting attendance was dependant on trust and the satisfaction of the members had in their cooperative. However, in researching Brazilian cooperative farmers, the

authors (Cechin et al., 2013) found that attendance at the Annual General Meeting (AGM) was linked to the members' economic motivation. In yet another study, the authors (Hendrikse & Veerman, 2003) suggested that agricultural cooperatives, in order to remain relevant to their membership, needed to increase the frequency of their meetings.

In this study conducted in Australasia, it was found that the large cooperative's members generally believed that the AGM was not effective and usually did not attend, however, smaller centralised cooperatives believed that the AGM was one opportunity to engage with other members and the cooperative leadership which made the AGM worthwhile in their experience. The reasons put forward for non-attendance were limited with the main reason, for those members not attending their AGM, due to on-farm commitments as the meeting was held in the peak milking season. Some farmers believed it was not worth the time investment while others did not attend for personal reasons.

Proposition-e is therefore confirmed for large cooperatives although the proposition is rejected for smaller cooperatives where members believed their AGM was effective and therefore the members' attendance was good.

Proposition f: Members perceive the formal contact with their cooperative as not effective when it comes to the annual meeting but believe that other meetings, such as supplier meetings, are effective.

As in *Proposition-e*, above, it was confirmed for larger cooperatives was similar to a finding in a European study (Kaswan, 2014) where the author found that the larger the cooperative, the fewer the meetings and the lower the quality of those meetings or interactions. Hendrikse and Veerman (2003) suggested that large cooperatives should restructure themselves to survive and should increase the quality and interaction of meetings between suppliers and managers. In yet another study the authors (Birchall & Simmons, 2004) concluded that the rotation of venues for the meetings was not always a solution to increasing participation and making the meetings more effective, however, increasing the frequency of meetings was seen as a possible solution.

In this study for Australasian dairy cooperatives, the smaller more centralised cooperatives had frequent meetings with their members keeping them up to date on the activities and

financial and operational performance of the cooperative, these meetings were seen as very effective. In contrast, the larger cooperatives relied on larger meetings which involved a high degree of planning and logistics and were more formalised; these meetings were seen as less effective. For example, Fonterra used to have supplier meetings at various farms within a region which were well attended and seen as effective but after an internal restructure these meetings were largely changed to the larger more-infrequent format which the members believed to be ineffective.

Proposition-f is therefore confirmed for larger cooperatives in that larger cooperative members saw the AGM as being ineffective however saw the smaller supplier meetings as effective whereas smaller cooperatives, in contrast, believed both the AGM and the smaller supplier meetings were effective. Therefore, the proposition is partially rejected for smaller cooperatives.

Proposition g: Member engagement with the cooperative is mainly limited to operational contact.

There have not been many studies that cover this important aspect of cooperative member engagement, once again it could be due to, as in the case of Australia, tanker companies collecting milk for various cooperatives and processors and thus the milk collection person is usually not part of the members' cooperatives operational staff.

Once again, this study found a difference between the smaller more-centralised and the larger more-dispersed cooperatives. The smaller cooperatives had various contact points where directors were available and often in contact, whether over the phone or in-person on-farm. Possibly the high level of contact encountered by the smaller cooperatives members was due to the locality of the directors. In addition to the Director contact, there was operational contact for milk-collection. The tanker drivers were well known to all small-cooperative members and were seen as an extension of the information network, often providing the members with news on other members or processors. In contrast, the larger cooperatives were reliant on the milk collection for their contact; however, this was not effective in Australia due to the tanker drivers being contracted and not being part of the operational staff. Other operational contact included the operation manager of the cooperative who was seen as extremely important, especially to smaller cooperatives where

a personal relationship had been built between the member and this operational manager. Larger cooperatives often have a Member Service Desk that takes calls from members and deals with milk collection and testing results. As there is no single operational contact, in this case, there is little chance of a relationship being built. Additionally, larger cooperatives make use of a Farm Representative that visits the members on their farm and deals with some operational queries. However, it was found that the contact was infrequent, and often, the Farm Representative was out of touch with the specific members' challenges and thus was seen as ineffective.

Proposition-g is therefore confirmed for larger cooperative and rejected for smaller cooperatives. Furthermore, Operational contact showed a concerning trend for larger cooperatives.

Proposition h: Contact with the member-directors is infrequent.

Contact with the directors and the chairman in a cooperative is seen as necessary, particularly in smaller cooperatives. Osterberg and Nilsson (2009) in an empirical study conducted on Swedish farmers, found that directors needed more training in order to be more equipped to deal with the cooperative members. In another study, Gray and Kraenzle (1998) found that the regional director was seen as necessary, positively contributing to members satisfaction and participation. Barraud-Didier et al. (2019), in their study, confirmed the importance of regional directors and suggested that directors should have frequent contact with their cooperative members. Again, in another study (Mazzarol et al., 2019), the authors stated that directors should be well versed in relationship marketing, highlighting the importance of direct member contact.

In Australasia, once again it was found that there was a split between larger cooperatives and those cooperatives that were more centralised and smaller. Larger cooperatives had minimal director contact unless they were geographically in the same region as a director. Additionally, it was found that some of the larger cooperatives had moved away from the practice of having regional directors by making all directors responsible for all members, which were seen as ineffective by the interviewees. As a result of the larger cooperatives director-challenges, in the minds of the members, the contact was infrequent and mostly ineffective. In contrast, the smaller cooperatives had almost weekly contact with their directors phoning them frequently

and having visits to their farms. The level of contact in smaller cooperatives was seen as very effective and frequent. The members, furthermore, felt they had a good relationship with their directors and chairman.

Proposition-h is therefore confirmed for larger cooperative and rejected for smaller cooperatives.

Proposition i: There is regular informal contact between members.

Very little literature has examined the contact that members have with each other. The literature has concentrated on the formal contact and engagement with their cooperative. However, the contact that the members have with each other is seen by Mazzarol et al. (2019) as an essential facet in marketing the cooperative to potential members.

Australasian members have contact almost on a daily basis with other members. Additionally, the community in which they are considered part of, is usually found to be geographically localised to the area where the farm is found. The members have regular conversations with each other over farm fences, over the phone, and at the local retail stores and community organisations such as schools, church, and sports clubs. This contact with each other is not specific to any size cooperative and can be found in both smaller centralised and larger geographically dispersed cooperatives.

Proposition-i is, therefore confirmed.

Proposition j: Members are generally satisfied with their operational engagement, including the resolution of issues.

Operational issues include the collection of milk, the testing results of the milk to examine for contaminants both biological and otherwise and payment issues.

Overall, the participants were found to be satisfied with the cooperative operational area, which supported them in their farming. Most of the members had had an operational query within the past 12 months with all of these being resolved, including some resolutions which were not in favour of the farmer. Members generally accepted the outcome of the query without complaint even if it was not in their favour. *Proposition-j* is, therefore confirmed.

S-RQ3: How do members feel about participating in the cooperative from a non-governance perspective and a governance perspective?

Proposition k Besides the governance aspect of serving on the board of directors, members remain willing to get involved in their cooperative.

Little research has looked at the non-Governance aspects of member participation in their cooperative. This study examined the answers to why members would participate, or not, in their cooperative, excluding any governance roles. Members were generally found to be not in favour of getting more involved in their cooperatives in roles that excluded governance. The vast majority of members cited on-farm commitments as the reasons, however when examining the spouse's answers from the participants, many of the spouses had taken up non-governance roles in member engagement, organising a Christmas get together, or a committee, or other informal get-togethers for their cooperative community.

Therefore *Proposition-k* is rejected.

Proposition l: Members are willing to be more involved in the governance of the cooperative, including serving on committees and the Board of Directors.

In contrast to the non-governance roles, the members, when queried about their willingness to get involved in governance roles, were mostly willing. The exception to the members not willing to get more involved in a governance role were those members who were already involved in a governance committee or those that had either served on the board of directors or a committee and felt they had "done their time".

Proposition-l is, therefore confirmed.

S-RQ4: How familiar are the members with the cooperative legislative framework and the internal constitutional documents?

Proposition m: Members, including member directors, have little understanding of the cooperative law of their region.

Knowledge of the law that the cooperative operates under is essential to understand the member rights and the recourse available to them. Additionally, many of the more modern cooperatives laws have protections within them to support the members. As Chapter-2 has shown, the laws in Australia are considered as more modern while the cooperative law of New Zealand is seen as more outdated, having very little in the way of protection for members.

In this study, the participants were asked what their knowledge was of the cooperative laws of the country. The majority of members admitted having little or no knowledge of the cooperative laws. The majority of directors, however, believed that they had a good knowledge of the cooperative laws. This finding of the directors knowing the law was in contrast to one of the findings from Chapter-2 and Chapter-3 where one of the smaller cooperatives had reincorporated under the Corporation's legislation in Australia which removed all the specific cooperative protections where it was found the directors had little specific knowledge of the difference between a corporation and a cooperative in Australian law. Other cooperative directors in Australia were further questioned on their knowledge of the cooperative laws and the limitations, for instance, that those states had in terms of not being part of the Australian Uniform Cooperative Laws Agreement (AUCLA), it was clear from the answers that while the directors believed they had a good knowledge of the law, they had in fact, very little. New Zealand cooperative law is subordinate to the Companies Act 1993 and as a result, takes on any provisions from the companies Act that the cooperative Act expressly does not alter. When New Zealand cooperative directors were asked clarifying questions on their understanding of the law, they were mostly unaware of the consequences of the legal structure. Directors from both countries mostly understood cooperative obligations as far as registration, and financial reporting were concerned.

Proposition-m is therefore confirmed notwithstanding the directors believing they sufficiently understood the cooperative law.

Proposition n: Members have little understanding of their cooperative constitutional document that governs the rules of their cooperative; however, the directors do have a good understanding of the constitutional document.

The constitutional document or Constitution in New Zealand and Replaceable Rules in Australia is an essential list of provisions that can replace specific Cooperative law provisions.

It is used to govern the specific cooperative from the membership, voting, and rights perspective. Little research has been conducted on the effect this can have on the member relationship with their cooperative.

In this study in Australasia, it was found that the members who took part in this research had little or no working knowledge of their cooperative constitutional document. More than 90% of the member participants admitted a lack of constitutional document knowledge. In contrast, the directors all believed they had a good working knowledge of the constitutional document and were able to apply or explain it to any members who queried it. When clarifying questions were asked of the directors on the constitutional document, it was clear the knowledge of the document was sufficient.

Proposition-n is therefore confirmed in both parts.

Proposition o: Members, including member directors, believe that they would benefit from education on the cooperative legislative framework and their constitutional document.

Having a working knowledge of the law and the constitutional document would assist in member governance, and whatever shortcomings are found within the law can be supplemented, for both Australia and New Zealand, in the constitutional document. When the members and directors were asked if they believe they should have more knowledge of the constitutional document and the cooperative law, the overwhelming majority confirmed the need for further education on this subject.

Proposition-o is, therefore confirmed.

S-RQ5: How are dairy cooperative members engaged in making decisions that could affect the farm-gate price?

This section looked at the involvement and participation that cooperative members had in their cooperative when examining significant decisions that could potentially affect farm-profitability or long-term strategy. For example, when a decision was being taken or had been taken that affected farm-gate price in a major way, this was considered to be one of those major decisions. Decisions that were examined included the building of a new processing site,

re-signing of a large long-term contract at a fixed price, changing the constitutional document, reduced payouts, divestiture of strategic cooperative assets, and an organisational review.

Proposition p: Members receive very little information regarding strategic (farm-impacting) decisions of their cooperative.

Nilsson et al. (2009); found that member trust in the cooperative and the board of directors was related to the information that they received from their cooperative, this was confirmed in a separate study (Barraud-Didier et al., 2019). Again, in another study, Feng et al. (2011) linked loyalty to the truthfulness of the information members received from their cooperative. One of the challenges that large cooperatives encounter is believed to be from information asymmetry (Nilsson & Hendrikse, 2009), members are sometimes given insufficient information about the cooperative overall operational and financial performance and decisions.

In this study, the information was seen to be problematic with many of the cooperative members frustrated with the lack of information they were receiving from their cooperative. This was excepting for Tatua who received adequate information according to their members. The remaining cooperative members in this study all stated they did not get sufficient or timely information.

Proposition-p is therefore partially confirmed. It seems that smaller centralised cooperatives, in addition to the other advantages discussed above, do not suffer as much from the lack of information the larger cooperatives are faced with, this was expected.

Proposition q: Members have few opportunities to query and clarify cooperative decisions.

When decisions are made, and the information the member receives may not be adequate for the members to understand the strategy, what recourse does the member have in order to satisfy his query or understanding? Xiang and Sumelius (2010) found in their study conducted with a Finnish cooperative that members wanted decisions to be clarified and explained by the directors. Bhuyan (2007) found that a member is more likely to exit from their cooperative if the member feels their *voice* in a decision is not heard by the cooperative management. Again, in other research, Dakurah et al. (2005) linked the satisfaction of

members to the decision-making process, which generally includes a cycle of information and clarification.

In this Australasian study, it was found that members often have no say in what decisions are made and the reasons that a particular decision was made. They further have little recourse options in the decisions. This indicates that many decisions are made by the cooperative board without regard to the members. When asked what recourse they had, half the members stated that they would query it with a member of the board while others said they would take it to a meeting. Still, others stated they would either call a special meeting or would exit. It was clear from the data analysed that the cooperatives did not have a standard process whereby members could query decisions or strategy.

Proposition-q is, therefore confirmed.

Proposition r: Most members believe that cooperatives do not share sufficient information with them, and there are opportunities for improving information quality and distribution.

Research by Birchall & Simmons (2004) concluded that there are problems in information flows to members, and the balance had to be right between too little and too much information. Gijssels (2009), using the research from Birchall and Simmons 2004 study pointed out that consultation was a crucial factor in information flows which assumes that feedback mechanisms are built in to ensure members have opportunity to provide feedback and seek clarification.

When asked what could improve information sharing, there were four main themes. The removal of confidentiality restrictions, this was found in both New Zealand, where the cooperative law did not deal with information except through the superior Companies Act where there was a clause that restricted information to shareholders, and Australia where the cooperative management refused to share information on long-term strategic contracts as a result of commercial confidentiality. Additionally, the members wanted more frequent supplier-type meetings to increase the available forums in which the cooperative could share information; they moreover required more transparency pointing to a lack of sufficient detail in the information shared with them to the point they did not understand the initiative. Lastly,

the members all wanted more information and communication due to the discussed reasons. *Proposition-r* is, therefore confirmed.

S-RQ6: What evidence is there from dairy cooperative member-farmers as to their consultation and input to decision-making by the operational management when reviewing major strategic initiatives that the cooperative has undertaken in the past five years?

Decisions that were used in this research included those from the table below duplicated here from the Section on Findings above. The propositions below, together with previous research, are used to understand the decisions and membership participation in decision-making.

Coop	Decision-1	Decision-2
ADFC	New Dryer + Reincorporate under Corporations legislation	Tiered Pricing (season high/low)
DFMC	Resign of 10-year Contract	Sale of Lion Drinks and Dairy
NORCO	Coles decision	Increasing the number of Suppliers
DGC	Constitutional Change	New Share Issue
Fonterra	Selling of Assets (Tiptop for example)	Reduced advance pay-out (December 2018)
Tatua	Dryer build – a few years ago	
Westland	Organisational Review	

Table 5. 9: Major Decisions for all Cooperatives

Proposition s Members are often not involved in decisions that could impact farm financial and operational performance or profitability.

Decisions that could affect farm profitability are those decisions that, when taken, have a substantial impact on the farm gate price. These decisions are seen as strategic decisions which the cooperative should weigh carefully in order not to impact their members in some way. Furthermore, there are decisions taken by the cooperative organisation that can affect farm viability and efficiency; these decisions are those that change the rules for their members, for example, feed types, calving schedules, or testing requirements. These

decisions are, therefore, significant to the cooperative members and should be discussed with them prior to implementation.

From the findings, the members fell into three categories, those that believed they had voted for the major decision, those that believed that they were not involved at all in the decision except for being informed in some way post the decision being made, and those who were unsure about their involvement and could not recall one way or the other. Using those members for a specific cooperative that believed they had not been involved and contrasted against those members who believed they had been involved, showed that in many cases there was no involvement from any members in individual strategic decisions. The “unsure” category, after further clarification, indicated a lack of rules as far as decisions were concerned. This implies that besides anything stated explicitly in the cooperative law or the cooperative constitution; members seldom were involved. For example, individual cooperatives had more than one strategic decisions in the past year, where it was mandated that members had to vote, the vote was taken, however, where the law and the rules were silent on the member involvement, members were not involved.

Proposition-s is, therefore confirmed.

Proposition t: Cooperatives tend to make decisions at the board level without input from members.

Following on from the previous section which covered the involvement members had in the strategic, significant decisions that the cooperative made, the directors confirmed that they had voted on these at the board-level and had kept the members informed. In individual smaller cooperatives, there was evidence that the membership base had been kept informed and the decision or strategy had been brought up at supplier meetings. In contrast, the larger cooperatives had sent very little in the way of information back to their members on the rationale of the strategy or decision. Furthermore, the larger cooperatives often released items to the public press prior to anything been sent out to their membership, and evidence was found that in some instances there were no member updates regarding the decision or direction at all besides that which could be found within the media releases. It must be stressed that in these examples of strategy and decisions, the cooperatives acted within the legal boundaries set by the law and their constitutional document through a clause whereby

the Directors were given full authority on behalf of the cooperative. The comments from the members were concerning, as, in many examples, the members believed that the directors were knowingly withholding information from them or members were being told only what the directors had decided to inform them of.

Proposition-t is confirmed the majority of decisions being made at the board level only unless these were explicitly stated within the Law or constitutional document.

Proposition u: Members do not always have a defined process to query decisions or strategies of their cooperative organisation.

Having a mechanism or process for members to query decisions or clarify the direction of their cooperative was seen as very important to all members from all cooperatives within this study. Furthermore, the interviews found that there was little evidence of a formal process whereby the members could query these decisions.

The members mentioned several ways that the decisions or strategy could be queried including taking it to a meeting, this comprised of the smaller supplier meetings or the Annual General Meeting (AGM) however as we have found that the supplier meetings were irregular in many cases. The AGM was generally negatively perceived, which would make this option inefficient in most cases. The majority of the members stated that they would contact the chairman or board of directors directly. This was predominately the preferred course of action for the smaller cooperatives who had a healthy relationship with their board; however, the larger cooperatives this was more difficult and the members that were not located close to their directors and chairman, did not have this option, therefore, leaving them to few alternative courses of action. The final actions which could be taken, as mentioned by the members, was to call a special meeting which indicated that those members had understood their rights given to them by their constitutional document, however, had very little idea of how to execute on the special meeting. This option was favoured by members that came from a cooperative undergoing a major review and since has ceased operation as a cooperative. It is clear that there is a lack of process either through the law, the constitutional document, or other governance artefacts that member can use when they are concerned about a decision or a strategy that their cooperative is taking.

Proposition-u is, therefore confirmed.

Proposition v: Cooperatives often use confidentiality as a reason for not involving their members or giving them information on farm-impacting decisions.

New Zealand Cooperative law is subordinate to the Companies Act. How the provisions are defined within both laws is that if a provision is contained within the Cooperative Act, it overrides any provision within the Companies Act. If the Cooperative Act is silent on a specific provision, but this is stated in the Companies Act, the Companies Act provision stands for cooperatives. The New Zealand Cooperative Act does not contain any reference to information given to their members although there is a provision for information sharing with shareholders contained within the Companies Act, this then applies. Companies Act 1993 S(178) limits the information access that shareholders can have in their company and therefore their cooperative. The members interviewed in this study stated that too often the cooperative used confidentiality of information to members as a reason why they could not share the information for a particular decision with their members.

In Australia, a similar provision is made in that information that is considered sensitive and of a commercial nature can be withheld from its shareholders, which includes cooperative members.

Notwithstanding the provisions that limit access to information in both countries, the constitutional document can override these provisions while retaining the actual details as confidential and therefore give members limited information while keeping them informed.

The findings support that *Proposition-v* is confirmed.

Proposition w: Members believe that they should be involved in strategic decisions that the cooperative makes, especially if this can impact their farm-gate price or farm profitability in any way.

A vast majority of members in this study confirmed that any decisions that had the potential to affect farm profitability in any way should involve the members. A small number of members believed that it should be left to the directors as this was why they were employed, and two participants believed that it was not practical. The rationale given by those that

wanted involvement was that it was their money, and therefore, they had to be involved. They mentioned and agreed that their involvement in smaller operational decisions was not required and the cooperative should just execute these smaller decisions on their own as the directors remained in oversight positions. Of those members that required involvement, a majority of them believed that, for these significant farm-impacting decisions, they should have an opportunity to vote on the decision. A small number of members stated that they just wanted information. The remainder of these were those who believed the directors should make these decisions.

It is clear from the findings that members want to be involved in the decisions that their cooperatives make that are not seen as operational decisions. This finding is in line with other studies which concentrated on participation in the governance of the cooperative. In one study, the participation of a member in their cooperative was statistically linked positively to the one-member-one-vote cooperative principle (Gray & Kraenzle, 1998). In another study (Xiang & Sumelius, 2010), the authors found that participation in the governance of a cooperative was linked to a members' perception that they had equal rights, including voting, to other members. Members who voted and were given votes participated more in the governance of their cooperative and were more satisfied and were found to be more committed in their cooperative (Osterberg & Nilsson, 2009). Having higher participation in the governance of a cooperative leads to higher loyalty. Therefore, the more members are involved in decision-making or strategy, the higher the members' loyalty which is linked to higher cooperative profitability.

Therefore *Proposition-w* is confirmed.

Proposition x: Directors believe that the board of directors should make the decisions; however, keep the members informed.

In this study, several directors were interviewed and were asked about how much involvement they believed their members should have in decision-making. The findings (above) indicated that every director interviewed wanted more member involvement in their cooperative, including voting on the decisions. Directors felt that they were often making decisions that their members should be involved in or having a vote on. This finding leads to

a conclusion that directors feel partially removed from their member-base, although they have the power to change this.

From the findings, *Proposition-x* is rejected as the directors want more member involvement, including voting on major cooperative decisions.

S-RQ7: How do members keep up to date on industry changes?

Often there are industry regulatory or law changes that can affect a farm operation. This section looked at the findings (above) that looked in particular at significant industry regulatory changes, that of the proposed Dairy Code of Practice (DCoP) which affects the way contracts are initiated and executed with farmers and their processors of which cooperatives are part of; and New Zealand changes to DIRA in 2019 which removed some provisions regarding new farmers wanting to join Fonterra. Under the DIRA amendment, new farmers could be refused entry to Fonterra due to environmental non-compliance and distance; and obligations under DIRA to supply milk to competing entities which included other cooperatives.

Proposition y: Members do not keep abreast of industry changes that may affect their farm operation.

In Australia, from the findings, it was clear that the members of the cooperatives in this study mostly did not keep up to date with the proposed changes that might take place notwithstanding the availability of regular update meetings in the various regions across Australia. Their understanding of the proposed changes was limited, mainly have obtained updates from the public media. No submissions had been sent in from the 15 cooperative members in Australia, and it is unclear whether any of the cooperative organisations had sent any submissions in either. When talking to the directors, they had similar views that the members had, and once again, no submissions had been made from them either. Out of the 15 members interviewed, two had attended a single briefing about the proposed changes, one director and one member that sat on an advisory committee. Additionally, no members

were aware of any updates, other than the public media press releases, that they had received from their cooperative explaining the changes and what the possible effect of these proposed changes would have on their member's operations.

In New Zealand, the situation was similar to Australia with the changes to DIRA not being well understood despite these changes affecting each of their cooperatives in some way. The changes limited the milk that Fonterra had to supply to other processors and cooperatives under the provisions contained within DIRA. Westland members believed that these changes could not affect them, however, on closer examination of the proposed changes, the fact that any of the Westland members could have individually approached Fonterra to become members and Fonterra would have had to allow the application was not well understood. The amendment's effect was to remove Fonterra's obligations as to accepting every farmer who wanted to become a Fonterra member.

Proposition-y is therefore confirmed in that members and their cooperatives do not adequately keep abreast of the industry regulatory changes.

Proposition z: Members expect their cooperative to update them on industry changes that affect their farm operation.

On further clarification on proposed industry regulatory changes that affect, or have the potential to affect, cooperative members it was found that members generally expect their cooperative organisation to keep them up to date with any of the proposed changes. In Australia, the expectation was that if any changes could affect the cooperative members, the cooperative organisation would send information out to their members with explanations as to how these proposed changes would affect farm operations. In a previous section above on communication and information, it was found that members expected more information from their cooperatives as the information on significant decisions was seen to less than what the members expected, this finding supports that previous result.

In New Zealand, the findings were analogous to Australia's finding in that the members expected that their cooperative organisation to keep them informed. This finding similarly supported the assertion that many of the cooperatives, in the opinion of their members, do not keep them informed to a satisfactory level. It is possible that other organisation, other

than the cooperative organisations, could keep the cooperative members informed including the dairy industry bodies and the cooperative organisations of both countries; however, this was not confirmed for either country.

Proposition-z is, therefore confirmed.

S-RQ8: What is the role that technology currently plays in cooperative engagement and governance, and what opportunities are there to expand the deployment?

This section explored access to technology in the form of a Personal Computer and Smartphone. The section in this study looks at the role that technology can play in the governance of a cooperative when looked at from the member perspective. Members are often unable to vote on resolutions due to farm commitments was found above, however, if the place of decisions was moved to the farm and included members as a virtual group in a meeting, what would the result be in the members' perception? Often the logistics that a cooperative has to resolve to get information out to their members and for their members to vote on is too difficult.

Proposition aa: Most cooperative members have access to both a PC and a Smartphone

In this study, the members, scattered across many regions in two countries almost all had a smartphone and access to a home-office where a computer or laptop was used for various record-keeping purposes. Only two participants did not have their own computer; however, used other staff to fulfil this task. One member had a phone that had no “smart” capability.

Proposition-aa is, therefore confirmed.

Proposition bb: Cooperative members are open to the extended use of video-conferencing technology in meetings and other contact

The study showed that members are willing to examine technology use to extend the cooperative governance to members. There was an expected split between the larger and more decentralised cooperatives and those that were smaller and more centralised. The

smaller cooperatives had members that travelled to local meetings; this resulted in a high attendance rate for all meetings, both supplier and AGM. They believed that technology would inhibit the close relationship they had with their cooperative, and it would detract from the inter-member relationships. However, the larger cooperatives that were dispersed across regions in both countries believed that the use of technology would improve member attendance with many of them stating they would be more willing to participate in their cooperative and more often. Directors from all cooperatives held a uniform view that they as a group, would benefit from the use of video-conferencing for some of their meetings and committees as the burden on them to travel was high and compromised their on-farm presence.

Preposition-bb is therefore confirmed for larger cooperatives and confirmed for directors however rejected for smaller cooperative members.

Proposition cc: Cooperative members would support the use of a smartphone app, in conjunction with other methods, to vote on resolutions

The use of an application (app) to supplement the traditional voting methods was then explored. The mechanism would be on the smartphone but could be extended to the use of the home-office personal computer. Members did not always trust the voting in large cooperatives, with some of them stating that sometimes when a resolution was called and voted on, they were not convinced that it had sufficient votes to pass as it was difficult to see on a show of hands where there was a large audience. Furthermore, some members mentioned that they were not always convinced that some member farms did not have multiple votes on a show of hands as they believed that sometimes family members of the primary farm member would also put their hand up when voting. This level of distrust in the voting was not found in smaller cooperatives but was confined to the larger, more geographically dispersed cooperative members. Two members did not want the Smartphone app, one of which preferred the paper voting method, and the other did not have a smartphone and therefore felt it would not suit him. Of note was the fact that the question of a voting-app generated many positive discussions about the advantages that this app would give the membership to supplement but not replace the current traditional voting

methods whether they be one-member-one-vote or the polls which use the number of Milk Shares (mainly in New Zealand).

What the finding indicated was that the use of a secure app used by members wherever they were which could include being on-farm or in attendance at a supplier meeting, would improve the voting transparency for the cooperative. Additionally, the use of the app due to on-farm commitments would improve their participation in the governance of their cooperative.

Proposition-cc is, therefore confirmed.

S-RQ9: In the members' perception, what law/ regulation/ policy, if improved, would most benefit cooperative members from Australasia.

The interview questions supplemented by probing questions attempted to understand what, in the members' views of what would assist them in their farm operations and cooperative relationship as far as supporting policy or regulation was concerned. It was interesting that central themes were evident in the interviews, different for the two countries on specifics; however, a central theme was identified in cooperatives members across the regions form Australasia.

Proposition dd: Members from Australia would like the law to examine the role of large supermarkets have in the dairy industry.

Many of the Australian members believed that they were, in some ways, being held to ransom by the large supermarket organisations. It is of note that two of the three cooperatives that operate in Australia have contracts with the large supermarket chains. These supermarket organisations had signed up a 10-year supply contract with one cooperative for all of their milk, and the other cooperative had signed a 5-year supply contract. These contracts were signed, as was mentioned in other discussions above, without the members' input and understanding as to the contract specifics which locked the price in at a rate per litre for the contract period. It allowed for minimal price movement in that period. The signing of long-

term contracts when Australia was in the middle of a prolonged drought would place the cooperative under immense pressure to deliver the minimum quantities. In 2019 it was evident that milk had become scarcer due to the drought and sufficient supply to fulfil these contracts was becoming more problematic. The legislative policy that would need to be reviewed to address this would be the Competition Law as the members believed that often their cooperatives were forced into sub-optimal contracts by these large supermarket chains.

Proposition-dd is, therefore confirmed.

Proposition ee: New Zealand members believe that DIRA should be adapted for changing market conditions

New Zealand Fonterra members had support from other cooperative members who believed some of the provisions of DIRA were unfair to the cooperative. As this research interviewed only a few Fonterra members, it was difficult to come to any conclusion. However, it was clear that across all the cooperatives, all members believed that New Zealand needed a strong Fonterra to weather the increasingly competitive business environment.

Proposition-ee is therefore not confirmed as there is insufficient data to confirm or reject this proposition.

Proposition ff: Members believe that cooperative ownership provisions should be improved.

When asking the question of where the members needed more support from regulation and policy, a common theme became apparent that the members wanted more ownership in their cooperative. When clarified, the members believed they needed more control in various aspects of their cooperative in order to increase information, communication, and to allow for more participation in major farm-impacting decisions and strategy. All these aspects would increase participation as has been discussed above. Several members mentioned that they believed that the other laws including Australian Competition law, Environmental Laws governing all farmers to prevent poor environmental farming practices, Trespass Laws in Australia to enforce trespass laws and prevent farm invasions, and DIRA provisions be

adapted to protect farms in general. However, the majority of farmers perceived control and ownership policy changes over their cooperative to be the most important change to support them as cooperative members, sometimes in addition to the other laws previously mentioned.

Therefore *Proposition-ff* is confirmed.

5.6 Chapter 5 Conclusion

There are two essential ingredients for cooperative membership in order for the member and their cooperative to thrive. The first ingredient is the *influence* that a member has either singularly or collectively in their cooperative, and the second ingredient is that of *voice*, allowing the member to have input into cooperative direction and strategy. Having just the voice without influence will result in a situation where the member will be ignored, and this inevitably will lead dissatisfaction and potential for member exit. However, having influence can overcome incomplete governance, or voice, structures. Tatua is one example where membership is well connected to their cooperative, giving them the ability to examine all strategies from being intimately involved, notwithstanding that the law and constitutional document is weak in governance voice. For the larger cooperatives, the membership should have both *influence* and *voice* as we know from this study and other conducted in other regions, the larger the cooperative, the more heterogeneous the membership which implies a weakening of social capital and thus the *influence* of a member. The larger cooperatives must strive to build an inclusive governance structure to allow for a member's *voice*, as when this is effective it will build and positively support the social capital that a member has in their cooperative thereby increasing participation which will predictably lead to a more financially and socially successful cooperative. Even the smaller cooperatives that are less complex, and therefore have very few problems in this area, should build a governance configuration that utilises their strong social capital in order to prepare for the future when the cooperative grows in size or complexity and becomes increasingly heterogeneous. However, where one or both ingredients are lacking, the result can be undesirable for a cooperative as can be seen from the two recent Australasian cooperative failures.

This chapter confirmed the central hypothesis that there are two primary factors for positive membership, that of the engagement characteristic between the members and the cooperative organisation; and the governance characteristic that provides the cooperative members with the means to participate in and assess their cooperative's overall performance and decision-making effectiveness. It is concluded that without these two foundational characteristics, the basis to build confidence in their cooperative and the related operational farm performance can be compromised. Literature has shown that one without the other will result in a sub-optimal result for the cooperative in the long term, and this research similarly

concluded the same. Having a strong member relationship without the basic fundamentals of governance can lead to poor management decisions which inevitably can lead to the possibility of liquidation or conversion to another business form. Yet, good governance without an effective member engagement can lead to the same outcome of failure as weak member relationships place the important cooperative supply at risk due to a lack of commitment, participation, and loyalty of the members.

The themes of this study confirm many of the findings from other cooperative research conducted in other regions. Loyalty was concluded as being greater in the smaller, more centralised cooperatives and less in the larger, more geographically dispersed cooperative memberships. Furthermore, the loyalty of the members was concluded as being linked to the frequency and quality of contact with their cooperative organisation, including cooperative leadership. The fact that a member served as a director, or had served as a director, did seem to increase the loyalty for their cooperative organisation; however, this would need a further empirical study to confirm. In contrast to loyalty, satisfaction was concluded as being similar in that it had tangible ingredients, closely linked to the farm gate price and the overall financial stability of the cooperative.

Attendance, or participation, at the Annual General Meeting (AGM) is problematic for most members, excepting those members in smaller more centralised cooperatives. The fact that almost all of these AGM meetings are held in the peak season seems firstly to negate attendance from its members, and secondly can be seen to be counter-intuitive to attempting to increase cooperative member participation in general. Generally, the study determined that smaller supplier meetings were preferred, and members believed they could have open and frank discussions, whereas the larger meetings they were reluctant to take part in the meeting in any form. In contrast to the larger cooperatives, the smaller cooperatives all had high attendance ratings at their AGM as well as supplier meetings. Additionally, the larger cooperatives all stated that the engagement with their cooperative organisation was limited to operational contact mainly with few or any directors ever visiting them on their farm or even had contacted them. The lack of contact with their leadership once again was confined to the larger cooperatives; smaller cooperatives seemed to have a regular contact, especially

with the Chairman of the Board. Members all had regular contact with each other whether it took place at community events or “across the fence”, cooperatives matters were generally discussed among other topics such as the price of milk and farming challenges in general. Those members in regional areas where there were very few members from their cooperative, believed they lacked in this vital facet of engagement. All cooperative members were generally satisfied with the operational aspects of their cooperative, including the milk collection and the testing regime, although they did not always agree with the results. Tatua’s engagement was found to be stronger than the other cooperatives, including those that were smaller and more centralised. Tatua members were generally satisfied with their level of engagement, which was found to be high, and their level of knowledge in decisions that the cooperative made. This higher satisfaction was due to the multiple meetings their cooperative convened to discuss whatever initiative they were considering and obtain their member's views and input. All this pointed to a healthy relationship between the members and their cooperative organisation which confirmed the findings of other studies in other regions where it was found that good engagement contributed to higher levels of satisfaction and higher participation rates. It would have been expected that Tatua members might have had more concern about the voting systems as their cooperative is an NGC which votes based on milk shares which can skew the voting in favour of larger members, however, this was not the case. It is that this result with the Tatua members indicates that where there is good engagement, this is able to override other governance concerns and deficiencies.

Members were willing to become involved in the governance of the cooperative; however, did not believe getting involved in other aspects in a non-governance sense was an effective use of their time.

An important implication is that the contact with the directors cannot be stressed enough; the members view their directors in an almost political sense, they believe the directors should visit them regularly and have an intimate knowledge of their farm situation. The directors, especially for the larger cooperatives need to understand their local members and their specific challenges, the directors of a cooperative have to be closer than their corporate counterparts where corporate-director contact with shareholders is generally not performed

and not expected; this is a substantial difference between the expectation of the corporate shareholder versus the cooperative membership bases.

This study deduced that there was a lack of knowledge from almost all the participants in the applicable cooperative law and their constitutional document. Not understanding the rights of the cooperative member can possibly lead to agency problems and other governance challenges for members. It was evident that even the directors, while they had some basic knowledge of the law and their constitutional document, had little in-depth understanding and was limited in most cases to operational aspects such as entry, exit, directorship, and similar provisions. The role that the law and policy play in cooperative membership is evident from the findings of this research. Principles embedded in the law which have sufficient provisions to ensure that members have the foundational support in their constitutional document is essential for the longevity of the cooperative. Generally, the members in this research all believed and expressed an interest in understanding more about the law and especially their cooperative constitutional document.

When the study examined the participation in the major decisions that the cooperatives had recently made or were about to make the results were of concern. It was found that unless the constitutional document had specific provisions about a particular item, the members generally were not involved and did not vote on the strategy or decision even though these decisions had major farm-profitability impacts. The conclusion is that members are not adequately involved in major decisions. The reasons behind the lack of involvement seemed to stem from a lack of information for the members, directors using confidentiality as a reason to maintain secrecy or a belief that the directors were paid to take these decisions on behalf of the members. When the directors were asked about this challenge, they all maintained they wanted more involvement, including voting in some cases, by the members. Once decisions had been made, the cooperative organisations exhibited a lack of recourse process whereby the members could clarify decisions or voice their concern. This study found most decisions, other than the ones mentioned before that required member involvement in their constitutional document, were made by the board. The vast majority of the members believed, however, that they should have involvement in these decisions or strategy and vote on the decision as well.

Both members and directors had little understanding of policy and Industry changes such as the Dairy Code of Conduct in Australia and the 2019 amendments to DIRA in New Zealand concluding that generally, members do not keep abreast of regulatory changes in their industry that can affect their farm operation. Furthermore, the members believed that the cooperative organisations were responsible for understanding the changes and disseminating the information regarding the changes to their members.

As regards using technology to supplement members' participation at meetings in the form of videoconferencing found that members in large cooperatives believed this would be a necessary addition to assist them in attendance and participation. In contrast, the smaller cooperatives believed that this would detract from the important relationship-building opportunities they had with other members and their cooperative leadership. However, on the use of a smartphone voting application to be used in voting for resolutions the members almost all believed this would be beneficial to themselves and the cooperative as current voting methods were archaic and prone to inaccuracies.

Members believed that they had undefined ownership rights as they believed that they had little or no control over their cooperative when they believed they should. The members all wanted more voice in their cooperative and wanted the policy to be changed, which would afford them the rights they believed they were entitled to. The ownership in a cooperative has been linked to participation, loyalty, and satisfaction, (Feng et al., 2016; Puusa et al., 2018; Xiang & Sumelius, 2010) and when members are given the opportunity to vote, this will result in the best outcome for cooperatives. The members did not believe they should be involved in the operational decisions as the Board was capable of handling these, they wanted a say in the strategy and the direction the cooperative was taking and this they said would increase their loyalty.

Cooperatives are unique entities and are formed for the benefit of their members (Mazzarol et al., 2012; Levy and Davis, 2008; Novkovic, 2008). Two classes of benefits that have been researched, those of the "soft" benefits which are intangible and are related to the social aspects of membership (Fulton, 1999; Fulton and Giannakas, 2001; Morrow et al., 2004); and the other more tangible benefits which are the economic benefits of membership (Birchall 2004, Nilsson, 1999, Cook, 1995). The benefits that accrue to members are seen as

complementing the discussion and conclusions of this chapter. It is concluded from the responses of the member participants in this research that members do require both classes of benefits in order to maintain membership, that is, they require the *influence* as well as *voice* in their cooperative to remain as active, functioning members.

No members were found to resist the larger decisions, in theory; they wanted the best for their cooperative and therefore would go along with what the collective membership wanted notwithstanding they perhaps did not agree with it. This finding concludes that the Horizon problem that cooperatives face is not as critical as has been found in other cooperative literature.

It cannot be stressed sufficiently to involve the members. The two key elements of cooperative success are the engagement the cooperative organisation has and the involvement the members have in the strategy. It was clear that the members wanted more leadership contact, preferably on-farm; more smaller meetings; and more voice including voting in the strategic decisions.

5.6.1 Recommendations and Implications for Theory, Research, and Practice

There are numerous implications from this chapter, including the need for growing social capital to overcome governance weaknesses. If this is not possible due to the size and relative distribution of members, then the cooperatives would need to construct a governance framework to include the maximum number of members even if this necessitated the use of technology to bridge the member-to-member direct contact deficiencies. Furthermore, an understanding of governance was missing in the cooperatives of this study, although it was recognised as a deficiency. Improved understanding is recognised to be valuable. By involving more members in governance roles within their cooperative would allow members to have more participation and therefore more “connection” as well as affording an understanding of the complex environment that their cooperative operates in.

This study was a qualitative research study and used a relatively small population size of 31 members from 7 different cooperatives. More quantitative research based on the themes above that examines statistical information on what the engagement and governance involvement metrics are for cooperatives in Australasia is needed to support the conclusions

drawn from this qualitative research study. The new research should be broadened to include other agricultural cooperative entities, however, should take a proportional cross-section of the agricultural cooperative to ensure that the various primary environments are not lost in a study that is too broad. Finally do these findings and conclusions match other regions where little research has been undertaken that match this research design? It would be of interest to all stakeholders, including policymakers, government organisations, cooperative members and the cooperative organisation as well as researchers and scholars to understand more on how policy affects the cooperative organisation.

There is further insight to be gained exploring the role of the law and the constitutional documents in different regions where little research has been undertaken. The link between the foundational aspects of the principles, the law, the constitutional documents, the legislative framework, and the actual perceptions of cooperative members as a whole should be compared against other regions to ensure that the framework contained within this thesis for Australia and New Zealand is optimal for the organisational success of the cooperative. This should allow for visibility of the linkages between policy and cooperative success.

Please refer to the following chapter, Chapter-6, concluding this dissertation for details on what steps can be taken to bridge the gaps found in this study.

6. Chapter 6: Conclusions, Implications, and Further Research

Safeguarding Member Voice and Influence

6.1 Conclusions

In this thesis, the elements of governance were analysed separately and then cumulatively to obtain an understanding of the various aspects of governance in cooperatives. A new methodology has been employed in that member *voice* and *influence* was seen as having multiple elements supporting each other, the principles, the law, the constitutional documents, the governance mitigation or minimisation, and the actual member perceptions of governance via his/her *engagement* with their cooperative. Each element was analysed separately; from the basic level of cooperative principles to the actuality of what members perceive as their governance rights. The hypothesis was confirmed that there are elements of governance for members that support or detract inasmuch that a strength in the preceding element carries forward to the next element although a weakness in one element will inevitably result in a weakness in a subsequent element. For example, principles are applied in the law; the law mandates self-governance for members through the constitutional document, and the members then use the three elements to apply their rights. If the law is strong, then it is likely the constitutional document will be strong, and members rights are supported and protected. Unfortunately, the converse was also found to be true where weaker law resulted in weaker member governance rights. As a result, the approach of this thesis was validated as to using the elemental approach to build up a view of governance for a country, a region, a cooperative, and a membership. Previous research on cooperative governance has not used this approach in governance analysis and largely ignored the role of the various governance elements of the principles, the law, and constitutional document and taken the approach of researching the problems in the single-element dimension.

Cooperative principles are foundational for the modern cooperative movement. The evolution of the principles, however, has not been without problems. There are noticeable deviations from the International Cooperative Alliance (ICA, 2019) set of seven principles. For example, the United States Department of Agriculture has created its own set of three principles (USDA, 2019) to assess whether or not an entity is a cooperative, and other countries have accepted some ICA principles ignoring the remainder. Canada has added to

and reworded, the ICA principles to create their own "Basis of a Cooperative" assessment (Government of Canada, 2019). New Zealand is one example where the principles were read before their parliament; however, never applied in their cooperative law (New Zealand Government, 2002). Australia, on the other hand, has accepted the principles (Australian Parliament, 2004) and implemented them in their State-based cooperative laws (Government of Australia, 2017).

Where countries have applied the ICA principles, many have grappled with the implementation of the less defined principles to the general disadvantage of cooperatives in that region. Many regions have chosen not to implement particular ICA Principles, such as *Autonomy and independence*; *Education, training and information*; *Cooperation among cooperatives*; and *Concern for community*, instead implementing only the first three principles. While many countries acknowledge that the full set of principles are essential, there remains an opportunity for the application of the less defined principles. Education, Training, and Information is key to cooperative governance, yet in many cases, there has not been a successful implementation (ICA, 2019). The principles of *Concern for community* and *Cooperation among cooperatives* have not been widely accepted; however, some regions have implemented *Autonomy and independence* (ICA, 2019). This research is important as it highlights the difficulties that are associated with the implementation of cooperative principles. Having the principles defined and legislated is seen, from this study at least, to support member governance and additionally support cooperatives by minimising the effects of the major governance challenges encountered in their operation.

One of the most contentious principles of cooperation for the ICA set is the *Voluntary and Open Membership* (ICA, 2019), where any potential member can approach a cooperative and should be admitted. The open-membership principle can, in some circumstances place an unnecessary burden on a cooperative by accepting a new member where the member had already been rejected by non-cooperatives for some deficiency. For example, agricultural cooperatives should have a choice as to which members would be admitted, especially where acceptance due to the application of ICA-1 (ICA, 2019) might have the effect of subsidisation by the exiting member-base.

The other set of cooperative principles, the USDA set of three principles (USDA, 2019), has taken the position that their principles are defined and therefore, more readily accepted and applied. The drawback with the USDA principles is that it is missing the key to cooperation, that of the ethos of cooperation. USDA principles are silent on the community aspect of cooperation which is central and required as a vital ingredient of the cooperative organisation. In contrast, the ICA definition of a cooperative is "... *an autonomous association of persons united ...*" which has as its central tenet, a community. The limitation of the USDA principles is that the aspects of social cooperation are silent. The USDA omission of the social-network aspects of a cooperative could be attributed to an attempt to simplify the set of ICA principles (ICA, 2019) to allow for more straightforward policy implementation.

Cooperative principles are the basis of cooperative laws; the current set of cooperative principles have strengths and weaknesses. As long as the weaknesses remain, countries may continue applying corporate type legislation to cooperatives and thus weaken the cooperative advantage. There are other mechanisms available to members to strengthen their governance rights; these are short-term quick-fix type solutions and should be considered where the principles are deficient. Cooperative laws should be based on the cooperative principles as much as possible to ensure that the owners have sufficient governance over their cooperative. The use of the definition of cooperation of being an autonomous association of people who together own the cooperative and to which the benefits accrue would not seem to be difficult to legislate (ICA, 2019); however, in reality, while many have the principles or the definition in their law preamble, few regions have successfully implemented these as specific provisions.

Regardless of which set of principles are used in legislation across the globe, there are few examples of full implementations of cooperative principles. In this research, where ten countries cooperative laws were examined, cooperative laws that had provisions that related directly to the principles of cooperation were rare. The exception to this is the economic principle found in both the ICA (*Member economic participation*) and USDA (*User-benefit*) set of principles (ICA, 2019; USDA, 2019). It is worth mentioning that even though the original set of Rochdale principles were used in some form in drafting both sets of cooperative principles; these were not drafted by legal scholars but were composed for the Rochdale membership

association only. Little did they know that these would be used for the modern cooperative movement.

Other legislation and regulations can often interfere and continue to weaken cooperative operation. For example, in the United States at the turn of the 20th century, standard contracting terms and conditions for all suppliers of agricultural cooperatives was viewed as collusion and was deemed as anti-competitive. Only after successful lobbying did resolution come in the form of the Capper-Volstead Act of 1922 (Co-operative Marketing Associations Act (7 U.S.C. 291, 292), 1922) whereby cooperatives were exempted from certain of the anti-trust laws confirmed in research undertaken (Münkner, 2013). However, similar-intended legislation in other regions has met with limited success with some countries still applying blanket anti-trust laws, indicating a lack of understanding of the cooperative organisation. Furthermore, the accounting treatment of cooperative versus investor-owned-firm shareholding remains a challenge for financing (AASB, 2018). In an investor-owned-firm, the shares are treated as equity while in cooperatives, the shareholding is treated as a liability; this is related to the redemption of shares. This treatment creates a handicap for cooperatives when financing due to the perceived weakness of the cooperative Balance Sheet.

The New Zealand cooperative law structure is that of a law subordinate to the Companies Act (Government of New Zealand, 1993), which implies that if the cooperative law (Government of New Zealand, 1996) does not explicitly replace any provisions, the Companies Act provision applies. The structure of the law is disadvantageous to cooperative members in that there are Companies Act provisions, for example, that restrict Information to shareholders which can inhibit member-governance. The Dairy Industry Restructuring Act 2001 (DIRA, 2001) simplified the dairy industry of New Zealand and opened up foreign investment in dairy processing and marketing. The Act (DIRA, 2001) legislated the creation of Fonterra by the merger of the remaining two large dairy cooperatives and the disbanding of the government dominated Dairy Board. The enactment of DIRA was close to the time that many nations and regions were modernising their cooperative law following the 1996 ICA Congress (ICA (History Department), 1996), which tabled the current seven ICA principles of cooperation. As a result of DIRA, the New Zealand cooperative law modernisation could not take place by virtue of the fact that DIRA legally mandates Fonterra to operate in a specific manner, for example, mandating membership acceptance. This is in contrast to the ICA principles of *Autonomy and*

independence. While other regions cooperatives relied on their cooperative laws for operation, New Zealand relies on cooperative law, the Companies Act, and DIRA, which applies to all dairy entities. DIRA is regularly reviewed, and it appears only a matter of time before DIRA is repealed either in part or in full. At that stage, the Cooperative Companies Act, subordinate to the Companies Act, would remain. This structure and the fact that the law is almost 25 years old and has not been modernised may not be an optimal state of affairs for cooperatives in New Zealand.

Australia modernised its state-based cooperative law from 2012 (Government of Australia (b), 2017) to align more to the ICA principles of cooperation. Modernisation was achieved through the Cooperatives National Law (CNL) that would standardise the cooperative laws in each State and remove the restrictions on cross-border cooperative trade and supply. However, each State had to subscribe and enact the legislation separately within their State. In contrast, the Corporations Act (Government of Australia (a), 2017) federal legislation applying to IOFs amongst other entities. The Corporations Act has robust oversight through government and other agencies, for example, the Australian Securities Investment Commission (ASIC), The Australian Stock Exchange (ASX) and others. The advantages in the Federal law is that one law applies to all IOFs, and changes are relatively simple and apply to all commercial non-cooperative entities when coming into force. In contrast to this is the cooperative State-based laws that have to be synchronised between states which can lead to some States having (slightly) different versions of the central agreed law. Additionally, once an entity is incorporated through the federal Corporations legislation, it can raise capital as the shares are seen as equity once again, in contrast to cooperatives in which the treatment of shares, as mentioned, is a liability. This was the case of one of the dairy cooperatives in this study; they reincorporated under the Corporations legislation in order to raise capital. Another regulation that affects cooperatives is the recently introduced Dairy Code of Conduct (DCoC) (2019) as part of the *Competition and Consumer (Industry Codes – Dairy) Regulations 2019*. This code enforces certain behaviours from all dairy processors, including cooperatives. As an example, one of the codes enforced is that of not allowing contract repricing within a season. Cooperatives are owned and governed by their members, unlike IOFs. When environmental changes take place such as drought, bushfire, and COVID-19, cooperatives, in order to survive, might consider contract repricing in order to survive. Cooperatives should

be allowed to change contract prices without interference as long as they have explicit approval from their members collectively. The DCoC provisions should apply to IOF processors but not to cooperatives entities; this is an example of corporate-type laws and regulations being applied to cooperatives without understanding their unique characteristics.

The cooperative constitutional document is usually enabled by the applicable cooperative law of the region. Together with the principles of cooperation, a cooperative constitutional document can be a powerful tool for member governance. Regardless of any weaknesses in the applications of cooperative principles in the law, the constitutional provisions are usually broad and flexible, thereby allowing for the "shoring-up" of member governance where needed. Nevertheless, as was discovered by the analysis of the cooperative laws, there are certain countries such as New Zealand and India, who do not mandate a constitutional document. Chapter-3 examined the effect of mandating constitutional provisions on a sample of Australasian dairy farmer cooperatives. The purpose of mandating provisions is to ensure that critical mechanisms are given to members without explicitly dictating what these would be in the cooperative law. This allows for a more flexible governance regime and empowers the members to govern their cooperative. When examining three dairy cooperatives from Australia and four from New Zealand, there was a marked difference in the level of member governance between the two countries. Remembering that New Zealand does not mandate a constitutional document and therefore provisions, the finding that both countries constitutional documents were similar, led to the conclusion that it is often copied without appreciating its purpose. In Australia, the three cooperatives had a similar set of rules in their constitutional document, including the cooperative that had reincorporated under the corporation's legislation. Furthermore, the documents had a similar format which was broken down into sections which were based mainly on guidance from their cooperative business association for their region; this indicated that the cooperative industry bodies were functioning well and supported their association members. New Zealand does not require a constitutional document, and as the cooperative law is subordinate to the companies law (Government of New Zealand, 2017), it was concluded that the omission was possibly due to the companies law being more aligned to corporate-type entities than cooperatives. It was observed that all New Zealand cooperatives did have a constitutional document which led to

the conclusion that these documents are seen as vital for the functioning of the cooperative entity. The implication for policymakers is that they should take this into account when revising the cooperative law and mandate these documents as well as guiding what these documents should contain.

The analysis of constitutional documents uncovered a marked difference in the strength of governance provisions when contrasting Australia and New Zealand. Australia scored higher in all governance categories of this document. The comparative analysis of the constitutional document provisions in Australian and New Zealand dairy cooperatives led to the conclusion that mandating a document which included guidance on constitutional provisions had clear benefits for member governance. As this research was qualitative, a thorough study with a more significant sample set is required to confirm this trend. The lack of mandated guidance in New Zealand was concluded as a primary contributor to weaker controls such as the definition of a supplier and qualifications of a member director. The law protects the document in that any changes would require the majority vote of members. Additionally, when analysing the changes made to these documents over the past few years, the changes were usually operational concluding that changes to this document were initiated by the corporate function of the cooperative rather than the membership. It was further concluded that the document's purpose is not well understood and that it is not owned by the members but is treated as an operational document, changed by the Board to amend functioning rules. The constitutional document is concluded as being central for effective member governance; however, it has been largely neglected in academia. Furthermore, it remains the most effective method to improve or resolve member governance when members themselves understand the purpose and process of implementing variations to this document.

Three elements of governance have been discussed, that of the principles of cooperation; the cooperative laws; and the cooperative constitutional document. Each element is designed to support the next element while itself being supported by the former element. The law, when based on the principles of cooperation is efficient in that it grants power to the constitutional document. However, an analysis of the law found that many of the principles of cooperation were not transcribed in the law. While the first four ICA principles could be relatively easily implemented (ICA, 2019), the remaining three were not and thus had been generally ignored by policymakers. Out of three that had been overlooked by policymakers, the principle that

could be used to remedy some of the troubles associated with member governance is the *Education, training, and information* principle (ICA, 2019). When examining the USDA principles, there is no provision for the *Education, training and information*, resulting in a very corporate view of cooperatives and excluding the important cooperative ethos characteristic of social sustainability. Australian cooperative law does state the principles of cooperation in its preamble, although it remains difficult to find direct linkages between the principles (even the first four) and specific provisions in the law. However, the law does contain well defined mandated provisions for the constitutional document which may always have been intended to fulfil this need.

As found in Chapter-3 (Constitutional document), it was found that several factors contributed to control problems as found by Jensen and Meckling (1976). For instance, the characteristics of a supplier in Australia is more defined than that of New Zealand. The New Zealand definition was worded as "having an interest in a supply" (Government of New Zealand, 1996) which opened the supplier definition to anyone who, for example, had a farm-share. In contrast, Australia defined a supplier in its AUCLA (Government of Australia, 2012) as those farmers who were supplying their cooperative only. Additionally, in New Zealand, if a person had an interest in a supply, they could stand for election as a member-director, notwithstanding the conflict with the principle of member control. Furthermore, New Zealand cooperative law (Government of New Zealand, 1996) had a minimum ownership of 60% by members, although this was not found to be the case in the sample where all cooperatives were wholly owned by their members. Australia, and other studied regions, do not allow for non-member ownership (Government of Australia, 2012; Government of Brazil, 1971; Government of Canada, 1998; Government of France 1947; Government of Germany, 1889). The dilution of ownership and supplier definitions can contribute to a weakening of member controls and could be detrimental to the continued survival of the cooperative.

Similarly, the free-rider (Cook, 1995; Royer, 1999), horizon (Cook, 1995), portfolio (Royer, 1995 1999), and influence cost (Royer, 1999) challenges are not provided for in the Australian or New Zealand cooperative laws. When policymakers want to improve governance for cooperatives, they should be looking at the challenges that cooperatives (and other entities)

face and find methods to minimise these as much as possible to support member governance. In enacting DIRA (2001), New Zealand has in some way, exacerbated the problem of free-rider in Fonterra. Horizon challenges have been partially mitigated in both countries by cooperative capital units (Australia), and Fonterra's trading amongst farmers (New Zealand), although the latter is specific for Fonterra members, leaving the remainder of New Zealand cooperatives without a solution. So too, the portfolio problem has remained without an effective solution. It is therefore concluded that the most effective treatment of these challenges could be by the support of a comprehensive member-owned and controlled constitutional document. This would require the cooperative principle of *Education, training, and information* (ICA, 2019) to be supported by the applicable cooperative law.

While the previous sections of this chapter discussed the conclusions drawn from the analysis of prior literature concerning cooperative member governance, this section covers the reality of member governance from their perspective, derived from the analysis of primary information gathered from members.

The conclusions drawn from Chapter-5 included that the two essential ingredients for a successful cooperative are member engagement and member governance participation. When both are present, the cooperative will be successful. An interesting finding was that when member engagement was good, formal governance participation was less important. The converse was found not always to be accurate; good formal governance participation processes did not always result in good member engagement.

Member engagement was better in smaller, more localised cooperatives (Jussila et al., 2012; Feng et al., 2016) while more extensive cooperative suffered from a weaker engagement which matched studies of cooperatives in other regions (Reynolds et al., 1997). Members wanted to see their directors on-farm and keep them up to date with operational changes in their cooperative. The conclusion that can be drawn for the members' perceptions on engagement is that large, more dispersed cooperatives did not retain the engagement quality when compared to smaller more-centralised cooperatives. Member directors are viewed more as engagement contacts with farmers expecting the director to understand their farm circumstances. The appointment of member directors is concluded as being socially-

orientated in that the directors are expected to have a relationship with their members in contrast to their investor-owned director counterparts. Larger cooperatives will always suffer in engagement quality; however, some steps can be taken to improve engagement. Many of the members from larger cooperatives, less-satisfied with engagement and contact, believed that a regional structure would work far better than their current "all directors look after all members" framework. The local directors would thereby have quality engagement with their local members. In Fonterra, which had more than 9,000 members in 2020, the members understood the logistics involved with the directors keeping in touch with the member base. In this case, the engagement structure, as Fonterra has, is employing a shareholder council where engagement could be delegated as part of a hierarchy. However, the members interviewed from Fonterra believed that the council was ineffective due to the lack of power they had in keeping the Board to account. In this way, member-influence is a crucial ingredient in cooperative success.

Members want to understand their rights and obligations in terms of the law and the constitutional document. However, the lack of understanding of the purpose of the constitutional document contributed to a perceived lack of member voice. Many of the strategic decisions in cooperatives are made by directors without adequate member consultation. Here we are not talking about small operational decisions but those decisions that can affect the livelihood of members. Other studies have shown that participation can contribute to increased cooperative financial performance see, for example, Bijman et al. (2012) and Bhuyan (2007) who found that continued survival for a cooperative is linked to member participation. An important facet of participation was found to be governance participation (Osterberg and Nilsson, 2009). Furthermore, The involvement of the member is crucial as we already know that good participation, and therefore involvement builds on the trust and commitment of the members, which positively contributes to cooperative success. The lack of information could similarly detract from a lack of member decision-making involvement. Cooperative boards often limited member information access for strategic decisions which had the effect of distancing the members and weakening member engagement. The weakening of engagement can lead to dissatisfaction and eventually to member exit. Member exit affects cooperative supply (in the case of dairy) which can also, therefore, lead to cooperative collapse.

As can be concluded from the different chapters, the separate characteristics of engagement and governance start with cooperative principles and the implementation thereof. The governance problems that are encountered are directly related to the acceptance of cooperative principles, the implementation into the law, and the quality of mandated constitutional provisions. When all these elements work together, they will result in a high level of member *voice and influence* minimising the cooperative governance challenges. Furthermore, engagement or *influence* is seen as an essential ingredient to the *voice*, or *influence*, that a member needs when maintaining their cooperative relationship. Smaller, more centralised cooperatives have an advantage in that the members can interact regularly, and the directors are local to all members. When the cooperative becomes more dispersed, the quality of engagement diminishes and the cooperative needs to find innovative ways to maintain the relationship. Technology could be adopted to bridge some engagement challenges that larger cooperatives face, for instance, the use of videoconferencing or remote voting on resolutions by the use of a smartphone app. In this way, member voice is being heard, which increases participation and contributes to better engagement as the member believes they can influence their cooperative. Together with a regional or even localised framework for engagement, the cooperative will flourish as members fully participate in their cooperative. The collapse of both Murray Goulburn and Westland can be linked to a failure of policy and implementation. In Murray Goulburn, the members were dissatisfied with their voice, and with Westland, a similar situation existed before the eventual collapse and subsequent sale to a foreign-owned entity. Furthermore, the offering of bonuses to Westland executives on completion of the sale (NZ Herald, 2019) would be in direct conflict with cooperative ethos, that of a socially-connected, mutually-owned entity controlled by its members. Cooperative success is inexorably tied to the critical role that member *voice and influence* plays.

Having *voice* or Governance opportunity supports participation which supports engagement which supports loyalty and satisfaction which supports cooperative financial and social performance and mitigates the risk of loss of supply

Having *influence* or engagement builds greater social capital in the cooperative, which supports involvement in critical farm-impacting decisions which allows for input into the major cooperative decisions which can overcome governance weaknesses.

6.1 Implications

The implications of this research are three-fold; it has implications for policymakers, cooperatives, and members. For member governance to be fully supported, it may require changes from all three sets of stakeholders.

6.1.1 Implications for Policymakers

Policymakers should strive for the practical implementation of the cooperative principles, even if this is not easy. Principles are foundational to the drafting of legislation; selecting only certain principles can weaken the cooperative ethos and could leave the cooperative operating environment with unnecessary challenges. Policymakers should avoid applying legislative and regulatory instruments that were designed for IOFs to cooperatives.

Australian policymakers should also assess the impact of having federal legislation for IOFs while cooperatives are enacted under a state-based legal system, this can have the effect of favouring one and discriminating against the other when both coexist in the same commercial environment. The current Australian constitution applies to all entities for “trade and commerce” which encompasses both IOFs and cooperatives; federal cooperative law is thus justified.

New Zealand policymakers face challenges that require serious contemplation and, where appropriate, correction. The New Zealand cooperative law (New Zealand Government, 1996) is a subordinate law to the companies law (New Zealand Government, 1993); this research found that cooperatives can be disadvantaged when provisions that were designed for IOFs are applied to cooperatives. When contrasting this structure with other regions, it was found that this structure is unique to New Zealand and could be seen as inefficient although some scholars (Evans & Meade, 2006) believe this to be a flexible implementation of cooperative law. The fact that DIRA (2001) has constrained the ability for policymakers to develop cooperative law could be seen as a basis of improvement. Separation from IOF legislation is the first step in this regard. Furthermore, the enactment of DIRA in 2001 had many advantages for the dairy industry in New Zealand; however, it has also interfered with the recognition of the unique nature of the cooperative entity by not applying cooperative principles to support the modernisation of New Zealand cooperative law.

6.1.2 Implications for cooperatives

The implications for cooperatives are numerous. Cooperatives should be structuring their Board with directors who are proficient in relationship management as well as other important disciplines such as marketing, sales and supply chain logistics. In this research, members suggested that many of them, in particular from the larger cooperatives, had not had contact from their cooperative for an extended period, some more than two years. When members do not feel that their voice is being heard, they assume that they have no influence, and as a result, participation and engagement suffer. Anything that negatively impacts the way members feel about their cooperative is likely to cause adverse downstream effects, and collectively, this could result in the failure of supply, or even the cooperative. Additionally, the involvement of members in governance roles, not limited to board positions, can lead to a more satisfied member community and therefore, more significant engagement. For larger cooperatives, the implications of having members spread across vast areas can be partially solved through the creation of a relationship management structure to maintain active member contact, as long as the structure is empowered to act on behalf of members. Members do want a say in their cooperative; they do not, however, need all the details, especially for operational decisions. They want an opportunity for their voice to be heard which cooperatives should strive to provide.

Information restriction in cooperatives is incomprehensible; this is likely to lead to a distancing of members who understandably believe they have no voice. To support member participation, the implementation of electronic meetings can ameliorate low meeting attendance. So too is the number and placement of meetings in the calendar a problem. More frequent meetings where members have a greater opportunity to have their voice heard will increase participation and engagement with a positive result for the cooperative.

6.1.3 Implications for members

Members were found to be unaware of their rights. The cooperative constitutional document is the most straightforward manner in which to correct any member-related shortcomings. However, the members need to take control of this vital instrument and ensure it is kept current to provide an effective solution to having more *voice* and *influence*.

It is not sufficient to argue that directors take all the decisions without member input when members are within their rights to challenge any decision within current constitutional and legal procedures. Neither is it constructive to say that they did not vote on a particular resolution when they did not attend a meeting. Directors are members; therefore, if a member wishes for increased contact with a director, the member could initiate it as they would with a neighbour or an adjacent farming operation. Finally, members should form a community supported by the cooperative; this community could be local or virtual. The sense of belonging to a community supports engagement and allows for a collaborative approach to building the future of a cooperative.

6.2 Further research

The first major contribution of this research was a new methodology to evaluate cooperative *voice* and *influence*. This methodology analysed the theoretical impact of policy on cooperative governance by analysing the implementation of cooperative principles; the enactment of the principles within the law; the support afforded by the law for the constitutional document and how these three vital elements could be used to mitigate some of the known cooperative governance problems. The theoretical chapters (Chapter2-4) addressed concepts, contrasting other regions accomplishments with the acceptance and implementations of cooperative principles. The law was examined concentrating on the Australasian geography and specifically dairy cooperatives. Further research is required to expand the selection of ten countries to analyse other cooperative environments other than dairy agriculture which could potentially uncover solutions to policy challenges that Australia and New Zealand face.

The second significant contribution was an empirical qualitative study of Australasian dairy cooperative member perceptions as to their governance rights. A further longitudinal quantitative study of member perceptions performed by an independent body would allow for the defining and strengthening of the Australasian cooperative environment.

The third contribution was to provide the basis of a governance theory for cooperatives by addressing the underlying elements that make up the theoretical governance for a cooperative.

Many factors contribute to a successful cooperative; factors ranging from the law, the constitutional documents, and the relationships that members maintain with their cooperative. The identification of a tool-based assessment for resilience should be researched and developed, allowing for a practical, realistic appraisal of factors that any Australasian cooperative can undertake to strengthen member *voice and influence*.

As each chapter in this thesis was one view on this representation of member governance, there were separate recommendations for each chapter as to what research would further define and support member governance; these are listed in summary form in Table 6.1 below.

Item	Topic	Reference Chapter	Details on further research
1	Principles	2	Some ICA principles have been found difficult to legislate; more research is needed to understand why this is the case and what can be done about it.
2	Law	2	Cooperative law has been found to be at a disadvantage when compared to other organisational laws, for example, IOFs. An analysis of the approach taken by other regions to allow for both organisational forms to co-exist on an equal footing is required.
3	Law	2	New Zealand cooperative law was found to be less current than other regions; more research is required to understand if the findings of this research can be confirmed for other cooperative forms.
4	Constitutional Document	3	Constitutional documents were found to be powerful mechanisms for members to apply their governance rights; more research is needed to understand the role of this governance artefact in other cooperative forms.
5	Constitutional Document	3	Further research is required to examine the mitigating effect that the Cooperative Principles and Cooperative Law (covered in Chapter-2), and the Constitutional document (this chapter) has on the unique governance challenges that cooperatives face
6	Governance Challenges	4	Further research is needed to analyse governance rights in other cooperative types to understand if the findings for dairy cooperatives can be broadened to other cooperative forms.
7	Governance Challenges	4	The role of the cooperative director was mentioned briefly; however, more research is needed in order to understand the challenges of compromise that a director faces as a contributing member and as a director

8	Member Governance Perceptions	5	This research was qualitative and reported on trends. Longitudinal quantitative research should be undertaken to analyse trends and the change over time of member perceptions based on changes their cooperative made to the engagement model.
9	Member Governance Perceptions	5	The link between the foundational aspects of the principles, the law, the constitutional documents, the legislative framework, and the actual perceptions of cooperative members as a whole should be compared against other regions to ensure that the framework contained within this thesis for Australia and New Zealand is appropriate in other contexts
10	Member Voice and influence	6	The identification of a tool-based assessment for resilience should be researched and developed, allowing for a practical, realistic appraisal of factors that any cooperative can undertake to strengthen member <i>voice and influence</i>
11	A different view of member engagement	New	Research conducted taking a different view of the member-cooperative relationship by looking at the competitive market environment and other policy implication such as export and import. There is a trade-off between large cooperative bargaining power and member engagement – what can work for both parties?

Table 6. 1 Table of Suggested Further Research

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Abbreviations in Use

AASB – Australian Accounting Standards Board

ADFC – Australian Dairy Farmers Corporation (Australia)

ASX - Australian Stock Exchange

AUCLA – Australian Uniform Cooperative Laws Agreement

AUD – Australian Dollar

Australasia – Australia and New Zealand

BOD – Board of Directors

CCU – Cooperative Capital Units (Australia)

CLARITY – Cooperative Law and Regulation Initiative

CNL – Cooperatives National Law

CPF – Cooperative Policy Framework

DFMC – Dairy Farmers Milk Cooperative (Australia)

DGC – Dairy Goat Cooperative

DIRA – Dairy Industry Restructure Act 2001 and amendments

EU - European Union

EU - European Union

FCA - Financial Conduct Authority (UK)

ICA - International Cooperative Alliance

ICA – International Cooperative Alliance

IFRS - International financial reporting standards

ILO – International Labour Organisation

IOF – Investor-Owned Firm

IPS - Industrial and provident society

MAF - New Zealand Ministry of Agriculture and Forestry

NGC - New generation cooperative

NZD – New Zealand Dollar

NZDB - New Zealand Dairy Board

NZX - New Zealand Exchange

PECOL – Principles of European Cooperative Law

QDA – Qualitative Document Analysis

SGECOL - Study Group on European Cooperative Law

TAF – Trading Among Farmers (New Zealand – Fonterra)

TBD – To be Determined (future)

UK – United Kingdom

UN – United Nations

USD – United States Dollar

USDA - United States Department of Agriculture

Appendices

Chapter-2 Appendix 2.1: Cooperative Principles and Selected Laws timeline

Cooperative Principles						
(Rochdale, International Alliance, United States Department of Agriculture, Canadian Co-operative basis)						
1844 Rochdale Equitable Pioneers Formation of the entity, no real organisational alw for this form yet.		1966 International Co-operative Alliance (ICA) removal of "Limited Interest on Capital" and "Cash trading" principles from Rochdale-7, now ICA-6 (1966)	1995 International Cooperative Alliance (ICA) rewrites cooperative principles, publishes 7 principles (ICA-7)	2002 United Nations (UN), International Labour Organisation (ILO) Recommendation 193 - ICA 7 Cooperative principles adopted	2012 UN Launch of the International year of the Cooperatives. 3 main objectives: Increase Awareness, Promote Growth, and Establish legal framework for cooperative formation/ growth	
1895 International Co-operative Alliance (ICA) Formation of the International Cooperative Alliance, Rochdale principles are adopted as first set of principles	1937 International Co-operative Alliance (ICA) adopts original Rochdale Principles as the Rochdale Principles of Co-operation.	1987 United States Department of Agriculture (USDA) proposes 3 principles of cooperation, some overlap with Rochdale-8 (from 1966 ICA principles)	1998 Canada Canada (Federal government) published a set of "cooperative basis" principles which included 8 cooperative basis operation. These overlap with the ICA-7.	2009 UN Resolution 64/136 declares 2012 as the International Year of Cooperatives	2013 USDA re-examines USDA-3 against the ICA-7 principles and recommends no change (USDA-3 remain)	
1787 - 1899	1900 - 1949	1960 - 1994	1995 -1999	2000 - 2009	2010 - 2013	2014 - 2020
1787 US United States Consitution Commerce and trade was listed in the United States Constitution (Article I, Section 8, Clause 3) and states that the United States Congress shall have power " <i>To regulate Commerce with foreign Nations and inter-stae trade.....</i> ". Whilst there has been some argument about this, the interpretation is widely held that transactions affecting inter-and extra-state trade and commerce is goverened by this article. Additionally, any indirect commerce transactions is seen as being goverened by this article in the consitution. <div>US</div>	1901 AUS Australian Constitution Act. 1901 In particular, Section 51(i) of the act affirms that the Commonwealth has the power to legislate trade and commerce between the States. Section 51(xx) affirms the legislative power the Commonwealth has as regards to "Foreign Corporations and trading or financial corporations formed within the limits of the Commonwealth". Any changes still required the United Kingdom Parliment signoff. <div>AU</div>	1957 EU Treaty on the functioning of the European Union (EU) signed This treaty sets economic principles of the cooperation between the EU member states (establishing the European Economic Community). <div>EU</div>	1993 formation of European Union. This formation absorbed the EEC and renamed it the European Community (EC). <div>EU</div>	2001 AUS Corporations Act 2001. This is the non-cooperative legislation for companies, some sections are still applicable to cooperatives. Many Australian cooperatives registered under this act to enable cross-state expansion in the future. <div>AU</div>	2012 AUS Co-Operatives (Adoption of National Law) Act 2012 (NSW) This Act repeals the previous New South Wales cooperatives legislation by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>	2014 AUS Co-operatives National Law (Victoria) 2014. This Act repeals previous cooperatives legislation by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>
1852 NZ New Zealand Constitution Act 1852. The British Parliament still had final say in the running of New Zealand. No mention was made of trade and commerce in this Act. <div>NZ</div>	1914 United States passed Clayton Act This act had the effect of exempting cooperatives not having capital stock. It had the effect of helping non-stock; non-profit it did not excluded treatment of capital stock cooperatives. <div>US</div>	1982 CA Canada Constitution Act 1982 The act covers the constitution of Canada, it's provinces and territories by updating the 1867 Consitution Act. It removed any and all links to the British justice system and parliament. Its original name was the British North America Act, 1867 this Act ameded the olrginal Act to Canada Consitution Act, 1867. Any changes still required the United Kingdom Parliment signoff. <div>CA</div>	1996 NZ Cooperative Companies Act 1996 The Act covers cooperatives, however, all cooperatives have to register under the Companies Act as well. The Act makes no mention of cooperative principles or cooperative identity. <div>NZ</div>	2001 NZ Dairy Industry Restructuring Act 2001. DIRA- This law covers both cooperatives and investor-owned firms (or private for-profit firms). However, some of the sections within this Act can affect cooperatives. This act further consolidated the Dairy cooperatives in New Zealand into one entity called Fonterra. <div>NZ</div>	2013 AUS Co-operative National Law (South Australia) Act 2013. This Act repeals the South Australia Cooperatives Act 1997 by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>	2015 AUS Co-operatives National Law (Northern Territory) 2015 This Act repeals the Northern Territory Cooperatives Act 2002 by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>
1787 - 1899	1900 - 1949	1960 - 1994	1995 -1999	2000 - 2009	2010 - 2013	2014 - 2020
1852 UK Industrial and Provident Societies' Act of 1852 Industrial and Provident Societies' Act of 1852 was passed into law. This Act provided for the creation of Co-operative Societies, giving them separate legislative authority and removing them from the Friendly Society legislation <div>UK</div>	1922 United States passed Capper-Volstead Act This act had the effect of partially reversing the Sherman Act by authorising the right of farmers to unite for processing or marketing without violating antitrust laws. This was aimed mainly at agricultural cooperatives but included capital stock cooperatives <div>US</div>	1986 NZ Constitution Act 1986 The Act repealed the New Zealand Constitution Act of 1852 and removed the last linkages with the British parlimnet and judiciary. This Act allowed New Zealand to ammedn its own constitution. <div>NZ</div>	1997 AUS Queensland Cooperative Act 1997. The Act is based on the ICA-7 principles (Divison-3) with the statement that the Act should be interpreted to promote cooperative principles. Objectives include to "promote cooperative philosophy, principles, practices and objectives..." <div>AU</div>	2002 AUS ACT Cooperative Act 2002. Similar to the Queensland Cooperatives Act, the ACT Cooperative Act states it should be read to promote cooperative principles. Division 1.3 lists the ICA-7 principles as current. <div>AU</div>		2015 AUS Co-operatives National Law (Tasmania) 2015 This Act repeals the previous Tasmania Cooperatives Act by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>
1867 CA Canada Constitution Act 1867 Canada was created by an act of the Parliament of the United Kingdom called the British North America Act, 1867 (now known as the Constitution Act, 1867). Section 91(2) dealt with the regulation of trade and commerce which limited the Act to inter- and extra- provincial (foreign) trade but had no application in inter-provincial trade. Any changes stilll required the United Kingdom Parliment signoff. <div>CA</div>	1926 United States passed Cooperative Marketing Act This act allowed cooperatives that qualified under the Capper-Volstead act to share marketing information. <div>US</div>	1993 NZ Companies Act 1993 The Act covers all companies. Cooperatives are required to register under this act, however, not all sections are applicable to cooperatives and are thus replaced by sections within the cooperatives companies act. <div>NZ</div>	1998 CA Canada Cooperatives Act (v2017) The act covers all cooperatives in Canada, it is a federal law required of all ten provinces and three territories (13) if operating in two or more provinces; and (b) it will have a fixed place of business in more than one province. The principles overlap but do not mirror the ICA-7. <div>CA</div>	2003 EU adopts the Statute for a European Cooperative Society (SCE) This EU statute made it possible for EU member states cooperatives to operate across member states borders. <div>EU</div>		2017 AUS Co-operative National Law (ACT) Act 2017 This Act repeals the ACT state Cooperatives Act 2002 by adopting the Co-operatives National Law and Regulations. The national law contains all ICA-7 principles. <div>AU</div>
1887 United States, Wisconsin passed first Cooperative Law Cooperative marketing laws were in force before this between 1865 (Michigan) and others. Laws were based on the Rochdale principles - decrees included: Cooperatives could issue shares but had to limit the number; voting rights were tied to membership not investment; one member one vote; profits could be distributed, it was up to cooperative to decide how <div>US</div>			1998 CA Canada Cooperatives Act (v2017) The act covers all cooperatives in Canada, it is a federal law required of all ten provinces and three territories (13) if operating in two or more provinces; and (b) it will have a fixed place of business in more than one province. The principles overlap but do not mirror the ICA-7. <div>CA</div>	2009 AUS Western Australia Co-operatives Act 2009 Similar to the Queensland Cooperatives Act, the Western Australia (WA) Cooperative Act states it should be read to promote cooperative principles. Division 3 lists the ICA-7 principles as current. <div>AU</div>		
1890 United States passed Sherman Antitrust Act This act had the effect of viewing cooperation as collusion and hence anti-trust, this law made collusion and collaboration between farmers illegal. <div>US</div>						

Key:

Australia (AU)

AU

New Zealand (NZ)

NZ

United States (US)

US

United Kingdom (UK)

UK

European Union (EU)

EU

Canada (CA)

CA

Cooperative Laws

(United kingdom, United States, Canada, New Zealand, Australia)

Chapter-2 Appendix 2.2: Cooperative Principles Comparison

Rochdale (Original)	International Cooperative Alliance (ICA-7)	United States Department of Agriculture (USDA-3)	Canadian (Cooperative Basis - Canadian Cooperatives Act)
1. That capital should be of their own providing and bear a fixed rate of interest.	1. Voluntary and Open Membership	1. User-Owner Principle	1. membership in the cooperative is open, in a non-discriminatory manner, to persons who can use the services of the cooperative and who are willing and able to accept the responsibilities of membership;
2. That only the purest provisions procurable should be supplied to members.	2. Democratic Member Control	2. User-Control Principle	2. each member or delegate has only one vote;
3. That full weight and measure should be given.	3. Member economic Participation	3. User-Benefits Principle	3. no member or delegate may vote by proxy;
4. That market prices should be charged and no credit given nor asked.	4. Autonomy and Independence		4. interest on any member loan is limited to a maximum percentage fixed in the articles;
5. That profits should be divided pro rata upon the amount of purchases made by each member.	5. Education, Training and Information		5. dividends on any membership share are limited to the maximum percentage fixed in the articles;
6. That the principle of 'one member one vote' should obtain in government and the equality of the sexes in membership.	6. Co-operation among Co-operatives		6. to the extent feasible, members provide the capital required by the cooperative, with the return paid on member capital not to exceed the maximum percentage specified in the articles;
7. That the management should be in the hands of officers and committee elected periodically.	7. Concern for Community		7. surplus funds arising from the cooperative's operations are used to: (i) to develop its business, (ii) to provide or improve common services to members, (iii) to provide for reserves or the payment of interest on member loans or dividends on membership shares and investment shares, (iv) for community welfare or the propagation of cooperative enterprises, or (v) as a distribution among its members as a patronage return;
8. That a definite percentage of profits should be allotted to education.			8. it educates its members, officers, employees and the public on the principles and techniques of cooperative enterprise
9. That frequent statements and balance sheets should be presented to members.			

Chapter-3 Appendix 3.1: Analysis of 10 Countries Constitutional Provisions

No	Co-operative Items (Constitution/ Rules/ Articles/ Bylaw etc.) in the law or other documents. Key: ✓ = (Comply); ✕ = (Does not comply); P = (Partial Compliance); U = Unknown; preceding M = Mandatory; preceding O = Optional	Member Principle <u>Operate</u> <u>Director/ Board</u> <u>Regulate</u> <u>Govern</u>	ILO (H Hagen) Preceding M = Mandatory; Preceding O = Optional	Australia (State-based UCLA law)	New Zealand NOTE: Coop or Company does not have to have a constitution	Brazil (Federal)	Canada (Federal)	EU (Federal)	France	Germany	India (Federal) NOTE: Coop does not have to have a constitution	South Africa	UK
1	Co-operative Principles (ICA-7 version or USDA-3 or other) mention	P	✓	✓	✕	p ¹	p ²	p ³	✓ ⁴	✕	✓	✓ ⁵	✕
2	Registrar of co-operatives	R	U	✓ Separate to companies ⁶	Companies Registrar	U	U	U	✓ ⁷	U	✓ ⁸	✓	✓ ⁹
3	Rules/ Constitution/ Rules/ Bylaw found in which document (called constituent documents)	P	✓ ¹⁰ (However, states should be optional)	Law ¹¹	No separate section	Law ¹²	Law ¹³	Law ¹⁴	Law (See footnote 4)	Law ¹⁵	Law ¹⁶	Law ¹⁷	Law ¹⁸
4	Other documents (constituent documents) that can change the Law	R + O	U	Yes ¹⁹	Yes ²⁰	U	Yes - Articles	U	U	U	U	U	Y ²¹
5	Mandatory information that constituent documents must contain within the Law/ Act	R	See 5.2.2.1 (Bylaws /statutes) Pg. 82	Yes (Rules)	No ²² (Constitution)	Yes ²³ (Bylaws)	Yes ²⁴ (Articles and By-laws)	Yes (see footnote 14) (Statute)	Yes (See footnote 4) (Articles and Statute)	Yes ²⁵ (Statute)	Wording used is “may” (Bye-laws)	Yes (See footnote 17) (Constitution)	Yes (see footnote 18) (Rules)
5a	Name of Co-operative	M	✓ (M point 1)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5a(i)	Address of Co-operative Head Office	O	✓ (M point 2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5a(ii)	Type of Coop (Primary, Secondary, Tertiary)	O	✕	✕	✕	✕	✕	✕	✕	✕	✕	✓	✕
5a(iii)	Objective of co-operative	O	✓ (M point 3)	✕	P	✕	✕	✕	✕	✕	✕	✓	✓
5b	Active membership provisions (Transacting Shareholder NZ)	M	✓ (M point 4)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5c	Conditions of admission to membership	M	✓ (M point 5 + 6)	✓	✕	✓	✓	✓	✓	✓	✕	✓	✓
5c(i)	<i>Payments to be made</i>	M	✓ (M point 6)	✓	✕	✓	✓	✓	✕	✕	✕	✕	✕
5c(ii)	<i>Share or Interest to be acquired</i>	M	✓ (M point 5)	✓	✕	✓	✓	✕	✕	✓	✕	✕	✕
5d	Rights and Liabilities of members	M	✓ (M point 7)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5e	Circumstances in which members can be expelled/ suspended (and rights of the suspended	M	✓ (M point 4)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓

¹ BRAZIL: Societies of persons; Voluntary Membership; 1 member 1 vote; non-discriminatory;

² CAN: Partial – mentions “coop principles but does not elaborate; open; non-discriminatory; 1 member 1 vote; talk about **co-operative basis** and has a list describing same.

³ EU: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:l26018&from=EN> see preamble (10)

⁴ FR: See Article 7 of <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000684004>

⁵ RSA: Found in preamble and S(2) + S(3), specifically mentions ICA principles <https://www.acts.co.za/co-operatives-act-2005/index.html>

⁶ AUS: <https://www.coopdevelopment.org.au/govtagencies.html> : Each state and territory has a statutory officer created under Co-operatives National Law called the Registrar of Co-operatives, who is responsible for administering their respective co-operatives acts. The Registrar is located within a government department which also administers other business structures (except companies and aboriginal corporations)

⁷ FR: See article 25

⁸ INDIA: <https://indiacode.nic.in/bitstream/123456789/1914/1/200239.pdf> see Chapter-2

⁹ UK: Financial Conduct Authority (FCA) see S3b

¹⁰ Note: The ILO *Guidelines for Cooperative Legislation 3rd revised edition* (Hagen H, 2012) states that the adoption of bylaws (constitutions/ rules, articles etc.) should not be made compulsory, the guideline has the next section entitled “*Minimum obligatory content of bylaws*” at 5.2.2.1.2.1.

¹¹ AUS: <https://www.legislation.nsw.gov.au/#/view/act/2012/29> : See Section 60

¹² BRAZIL: Article 21 Law No. 5.764 of December 1971 (consolidated as at 7 July 2018)

¹³ CAN: Canada Cooperatives Act S.C. 1998, c. 1 <http://laws-lois.justice.gc.ca/eng/acts/C-1.7/index.html>

¹⁴ EU: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:l26018&from=EN> see Article 5 (4)

¹⁵ GER: See <https://www.gesetze-im-internet.de/geng/> for full text in German.

¹⁶ INDIA: See S10 of Chapter 2

¹⁷ RSA: <https://www.acts.co.za/co-operatives-act-2005/index.html> see S(13)

¹⁸ UK: http://www.legislation.gov.uk/ukpga/2014/14/pdfs/ukpga_20140014_en.pdf

¹⁹ AUS: From the Act: the constitution of the corporation or any rules or other document constituting the corporation or governing its activities, and includes a memorandum or articles of association and replaceable rules or other rules

²⁰ NZ: Dairy Industry Restructure Act 2001 and amendments - <http://www.legislation.govt.nz/act/public/2001/0051/69.0/DLM106751.html>

²¹ UK: FCA guidance

²² NZ: <http://www.legislation.govt.nz/act/public/1996/0024/latest/DLM376810.html>

²³ BRAZIL: Article 21 Law No. 5.764 of December 1971 (consolidated as at 7 July 2018)

²⁴ CAN: Articles 11(1) and 15(1) mandatory for articles of incorporation and bylaws resp. <http://laws-lois.justice.gc.ca/eng/acts/C-1.7/index.html>

²⁵ GER: See S6 and S7

No	Co-operative Items (Constitution/ Rules/ Articles/ Bylaw etc.) in the law or other documents. Key: ✓ = (Comply); ✕ = (Does not comply); P = (Partial Compliance); U = Unknown; preceding M = Mandatory; preceding O = Optional	Member Principle Operate Director/ Board Regulate Govern	ILO (H Hagen) Preceding M = Mandatory; Preceding O = Optional	Australia (State-based Federal law)	New Zealand NOTE: Coop or Company does <u>not have to</u> have a constitution	Brazil (Federal)	Canada (Federal)	EU (Federal)	France	Germany	India (Federal) NOTE: Coop does <u>not have to</u> have a constitution	South Africa	UK
5f	Circumstances in which membership ceases	M	✓ (M point 4)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5g	Charge/ Subscription payable by member to co-op	M	✕	✓	✕	✕	✕	✕	✕	✕	✕	✕	✕
5h	Circumstances in which fines and forfeitures may be imposed on members of the cooperative	M	✕	✓	✕	✕	✕	✕	✕	✕	✕	✕	✕
5h(i)	<i>Amount of fines</i>	M	✕	✓	✕	✕	✕	✕	✕	✕	✕	✕	✕
5h(ii)	<i>Max amount (prescribed where)</i>	M	✕	National regulations	✕	✕	✕	✕	✕	✕	✕	✕	✕
5i	Grievance Procedure for settling disputes between members & co-operative or between members	M	✓ (M point 18)	✓	✕	✓	✕	✕	✕	✕	✓	✓	✕
5j	The restrictions (if any) on the powers of the co-operative & board	D	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5k	Directors:	D	✕	✓	✓ ²⁶ Companies Act	✓	✓	✓	✓	✓	✓	✓	✓
5k(i)	<i>Number of directors</i>	D	✓ (M point 10)	✓	✕	✓	✓	✕	✓	✕	✓	✓	✕
5k(ii)	<i>Qualification of directors</i>	D	✓ (M point 10)	✓	✓	✕	✓	✓	✕	✕	✓	✓	✓
5k(iii)	<i>Way of electing</i>	D	✕	✓	✓	✕	✓	✓	✓	✓	✓	✓	✕
5k(iv)	<i>Renumeration</i>	D	✕	✓	✓	✕	✕	✕	✕	✓	✕	✓	✕
5k(v)	<i>Removal of directors and filling a vacancy</i>	D	✓ (M point 10) partial	✓	✓	✓	✓	✓	✓	✓	✓	✓	✕
5k(vi)	<i>Period for which directors are to hold office</i>	D	✓ (M point 10)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✕
5k(vii)	<i>How directors retire (rotation/ otherwise)</i>	D	✕	✓	✓	✓	✓	✓	✓	✓	✓	✓	✕
5k(viii)	<i>Method of holding annual elections</i>	D	✓ (M point 9)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✕
5k(ix)	<i>Government representation on boards</i>	R	✕	✕	✕	✕	✕	✕	✕	✕	✓ ²⁷	✕	✕
5l	Quorum of Directors and procedure of board	D	✓ (M point 11)	✓	✕	✓ 50%	✓	✓	✕	✓ Unspecified	✓ Unspecified	✓ Unspecified	✕
5m	Device Custody and use of the seal of the co-operative	D	✓ (M point 8) partial	✓	✕	✕	✕	✕	✕	✕	✕	✕	✓
5n	How funds of co-operative will be managed	O	✓ (M point 13)	✓	✕	✓	✓	✕	✓	✓	✓	✕	✓
5n(i)	<i>Mode of drawing and signing cheques, Drafts, Bills of exchange, Promissory Notes, for the co-operative</i>	O	✕	✓	✕	✕	✕	✕	✕	✓	✕	✕	✕
5o	Custody of Securities belonging to co-operative	O	✕	✓	✕	✕	✕	✕	✕	✓	✕	✕	✕
5p	How debentures may be transferred	O	✕	✓	✕	✕	✕	✕	✕	✕	✓	✕	✕
5q	Date of the financial year end of the co-operative	D + M	✓ (M point 10)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5r	Preparation of the financial reports of the co-operative and:	A	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5r(i)	<i>Provision of reports to members (how)</i>	A	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5r(ii)	<i>Audit requirements of reports</i>	A	✕	✓	✕	✕	✓	✓	✓	✓	✓	✓	✓
5s	How a loss resulting from the co-operative is to be provided for	A	✓ (M point 13)	✓	✕	✓	P	✓	✓	✓	✓	✓	✕
5t	Procedure for calling general and special meetings; notices; quorum	D + M	✓ (M point 9)	✓	✕	✓	✓	Same as GM	✓	✓	✓	✓	✓
5u	Procedure at meeting of the co-operative including:	M	✓ (M point 9)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5u(i)	<i>Rights of members in voting at meetings</i>	M	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5u(ii)	<i>Way of voting</i>	M	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5u(iii)	<i>1 member 1 vote at general meeting</i>	M	✕	✓	✕	✓	✓	✓	✓	✓	✓	✓	U

²⁶ NZ: Covered as part of the Companies Act 1993 - <http://legislation.govt.nz/act/public/1993/0105/188.0/DLM319570.html> / however, directors of a coop and company are of a different composition

²⁷ INDIA: See S48, if government has subscribed to the share capital

No	Co-operative Items (Constitution/ Rules/ Articles/ Bylaw etc.) in the law or other documents. Key: ✓ = (Comply); ✕ = (Does not comply); P = (Partial Compliance); U = Unknown; preceding M = Mandatory; preceding O = Optional	Member Principle Operate Director/ Board Regulate Govern	ILO (H Hagen) Preceding M = Mandatory; Preceding O = Optional	Australia (State-based Federal law)	New Zealand NOTE: Cooperative or Company does <u>not have to</u> have a constitution	Brazil (Federal)	Canada (Federal)	EU (Federal)	France	Germany	India (Federal) NOTE: Coop does <u>not have to</u> have a constitution	South Africa	UK
5u(v)	Member vote can be more than 1?	M	✕	✓	✕	✕	✓	✕	✓	✓ ²⁸ The statutes may provide for multi-voting	✕	✕	U
5u(vi)	Voting majority – ordinary resolution at general meeting	M	✕	✓ simple (51%) majority	✕	✓ 66% majority	✓ simple (51%) majority	✓ simple (51%) majority	✓ simple (51%) majority	✓ simple (51%) majority	✓	✓ simple (51%) majority	✓
5u(vii)	Voting majority – special resolution at general meeting	M	✕	✓ 66% majority	✓ 75% majority	✓ 66% majority	✕	✕	✕	✕	✓	✓ 66% majority	✕
5u(viii)	Voting majority – special resolution using postal ballot	M	✕	✓ 66% majority	✕	✕	✕	✕	✕	✕	✕	✓ 66% majority	✕
5u(ix)	Voting majority – special resolution using special postal ballot	M	✕	✓ 75% majority	✕	✕	✕	✕	✕	✕	✕	✓ 66% majority	✕
5u(x)	Member quorum	M	✕	✕	✕	✕	✓ simple majority 51%	✓ simple majority 51%	✓ simple majority	✕	✕	✓ number unspecified	✕
5u(xi)	Proxy allowed?	M	✓ (O point 10)	✓	✓	✓	No	✓	✓	✓ ²⁹	No	✓	✓
5v	Method of conducting postal ballots (including special postal ballots), including the:	M	✕	✓	✕	✕	✓	✓	✓	✕	✕	✓	✕
5v(i)	Sending and filing of information and votes by fax or electronic means	M	✕	✓	✕	✕	✓	✓	✓	✕	✕	✕	✕
5v(ii)	The way of voting	M	✕	✓	✕	✕	✕	✕	✓	✕	✕	✕	✕
5v(iii)	Majority necessary for carrying resolutions, and any special majority in addition for special resolutions	M	✕	✓	✕	✕	✕	✕	✕	✕	✕	✕	✕
5w	The way of amending the constituent documents	M	✕	✓	✓ (90%+ vote)	✓	✓	✓	✓	✓	✓	✓	✓
5x	How the co-operative may be wound-up	M	✓ (M point 17)	✓	✕	✓	✓	✓	✓	✓	✓	✓	✓
5aa	2-Tier board (supervisory + board of directors)	D	✓ (O point 4)	No	No	Yes ³⁰	No	Yes ³¹	Yes ³²	Yes ³³	No ³⁴	Yes ³⁵	No
5bb	Term of directors	G	✓ (M point 10)	No	No	Max 4 yrs.	Max 3 yrs.	Max 6 years	Max 6 years	No	5 years can be re-elected	Yes, 4 years	No
5cc	Member directors	G	✕	No, 51% majority only	No	Members only	66%	75% ³⁶	No, 51% majority only	Members only for Supervisory and Majority for management	No	Members only	No
5dd	Creation of a Technical or Education or Social Assistance Fund from surpluses	G	✓ (O point 11)	No	Partial	Yes ³⁷	No	If stated in statutes	Reserves are mandated	Reserves are mandated	Yes, education and Dev	Reserves are mandated	No
5ee	Treatment of reserves	G	✕	Yes	Partial	Yes ³⁸	Yes	Yes ³⁹	Yes ⁴⁰	Yes	Yes	Yes	No

²⁸ GER: See S43(3) statutes may provide the grant of multi-vote rights but no more than 3

²⁹ GER: Also representation by person representing multiple members

³⁰ Brazil: Supervisory Board tasked with monitoring Co-operative management, 3 members + 3 alternates

³¹ EU: 2-Tier systems allowed whereby the management board is appointed by the supervisory board from members.

³² FR: See article 26-19, “The European cooperative society may be managed by a management board, acting under the control of a supervisory board.”; Executive board max 5 members (increased to max 7 if shares are listed; Supervisory board max 18

³³ GER: See S26 – S61 describes Supervisory and Management boards board duties and limitations.

³⁴ INDIA: S42 states that there must be employee representation in management decision process

³⁵ RSA: If provided for in the constitution – see S29

³⁶ EU: See Article 42 (2)

³⁷ Brazil: Technical + Education + Social Assistance fund from surplus + optional employee assistance fund.

³⁸ Brazil: 10% to reserves; 5% to Tech; Educational and social assistance funds

³⁹ EU: min 15% until Capital of EUR30,000 is reached then not stated after this amount.

⁴⁰ FR: See article 16

No	Co-operative Items (Constitution/ Rules/ Articles/ Bylaw etc.) in the law or other documents. Key: ✓ = (Comply); ✕ = (Does not comply); P = (Partial Compliance); U = Unknown; preceding M = Mandatory; preceding O = Optional	Member Principle Operate Director/ Board Regulate Govern	ILO (H Hagen) Preceding M = Mandatory; Preceding O = Optional	Australia (State-based Federal law)	New Zealand NOTE: Coop or Company does <u>not have to</u> have a constitution	Brazil (Federal)	Canada (Federal)	EU (Federal)	France	Germany	India (Federal) NOTE: Coop does <u>not have to</u> have a constitution	South Africa	UK
5ff	Allow electronic documents	G	✕	Yes	✕	✕	✓	✓	✓	✓	✕	✓	✕
5gg	Allow electronic attendance - members	G	✕	✕	✕	✕	✓	✕	✓	✓	✕	✓	✕
5hh	Allow electronic attendance - directors	G	✕	✕	✕	✕	✓	✕	✕	✓ ⁴¹	✕	✓	✕
5ii	Allow electronic voting - members	G	✕	✕	✕	✕	✓	✓	✓	✓	✕	✓	✕
6	Number of sections/ articles within the co-operative Law/ Act	Stat	✕	304	51	117	386	80	30 Articles	170 sections	126	99	155
7	Count of use of the words (statute/ constitution/ Rule/ Articles/ Bylaw)	Stat	✕	378	45	68	179	108	71	149	125	140	235
7a	Count of no of mandatory provisions in constitutional document	Stat	19	26	Not Mandatory	10	22	12	10	7	NM	33	14
8	Supporting regulation/ laws for co-operatives	Stat	✕	Yes ⁴²	Companies Law, superior law	No	No	Yes, via member states	Yes ⁴³	Yes, Commercial code of conduct	No	No	No
9	Registrar checks and approves changes	R	✕	Yes ⁴⁴	No	<i>U</i>	<i>U</i>	<i>U</i>	Yes ⁴⁵	Yes (large coops)	Yes ⁴⁶	Yes ⁴⁷	<i>U</i>
10	Comments	-	Missing a few things, assumes that the Law is good as per the document	Well structured; law stands on its own	Confusing, missing governance provisions, seems to treat coop as a company with very little difference	Generally similar to other countries	Generally similar to other countries	This is for coop's that span more than EU member-state, see specific country	Similar in many ways to the EU federal law for co-operatives	Similar in many ways to the EU federal law for co-operatives	Well structured , mandatory guidance on quorums, board make-up (members)	Well structured, needs more mandated provisions	Missing some I governance provisions – directors, member quorums etc.

⁴¹ GER: See S43(3.7)

⁴² AUS: <https://www.legislation.nsw.gov.au/regulations/2014-44.pdf> (NSW used as example)

⁴³ FR: Refer to *Law No 2014-856 of 31 July 2014 on the social and solidarity economy* and the French Commercial Code (in French)

⁴⁴ AUS: <https://www.legislation.nsw.gov.au/#/view/act/2012/29> : See Section 60(4), note that 60(8) gives a time limit for registrar to approve the rules as follows: “*The Registrar is taken to have approved the proposed amendment (as submitted to the Registrar) at the end of the period of 28 days after it was submitted, unless before the end of that period the Registrar gives written notice to the person who submitted it that the Registrar*”

⁴⁵ FR: Called the High Council of co-operation

⁴⁶ INDIA: See S11(4)

⁴⁷ RSA: See S82 of Chapter 11

Chapter-3 Appendix 3.2: Constitutional provision classification table

Principle	Code	Theme	Code	Item	Code	Value	Common?
Member ownership	MO	Ownership	MOO	Cooperative shares one member one vote (1m1v)	MOO1	Common to all	C
				Milk Shares (Polls/ Postal) Not used other than Poll?	MOO2	Y/N (1 OR 0)	
Member Benefit	MB	Benefit	MBB	Surplus to members based on patronage	MBB1	Common to all	C
		Under-mining	MBU	Debt leverage oversight (by information access = 1; n = 0)	MBU1	Scale 0,1,2	
				Dividends paid to cooperative members only	MBU2	Y/N (1 OR 0)	
		Dispute	MBD	Dispute/ Grievance provision	MBD1	Y/N (1 OR 0)	
Membership Rules	MR	Rules	MRR	Common to all cooperatives and, coops in this study have no rules that impact governance.	MRR1	Common but tailored	C
Member Information	MI	Information	MII	Statutory information - Companies Act 1993 (Annual Report/ Member meet Minutes)	MII1	Common by law	C
				Additional Information no =0; interests = 1; Registers, Interests and more = 2	MII2	Scale 0,1,2	
		Engagement	MIE	Committees/ other (member attend)	MIE1	Y/N (1 OR 0)	
Member Control	MC	Member Voting	MCV	Vote on Appointed Directors No=0; Ratified at next GM = 1; Yes = 2	MCV1	Y/N (1 OR 0)	
				Vote on Member Directors	MCV2	Common to all	C
				Show of Hands	MCV3	Y/N (1 OR 0)	
				Polls/ Postal votes (number): EQ 1 = 4; 5 or less = 3; Between 6 and 10 = 2; Gt 10 LT 20 = 1; Milk Share number = 0.	MCV4	Scale 0,1,2,3,4	
				Vote Separate not attached to shareholding	MCV5	Y/N (1 OR 0)	
		Member Meetings	MCM	Meeting Notice GTE 2 weeks/ 10 working days	MCM1	Y/N (1 OR 0)	
				Facilities for distant members (Electronic Attendance – AV)	MCM2	Y/N (1 OR 0)	
				Ordinary Resolution majority 51%	MCM3	Common to all	C
				Special resolution Majority, Same as Ord=0; GT Ordinary LTE 66% = 1; GT 66% = 2	MCM4	Scale 0,1,2	
				Quorum LT 1% = 0; GTE 1% but LT 5% = 1; GTE 6% and LTE 10% = 2; GTE 10% and LT 15% = 3; GT 15% =4	MCM5	Scale 0,1,2,3	
				Calling special meeting number/ votes (average is 5%) GT 0 and LTE 5 =3; GT 5 and LTE 10 = 2; GT 10 and LTE 15 = 1; GT 15 = 0	MCM6	Scale 0,1,2,3	
				Annual General Meeting conflict (peak three months)	MCM7	Y/N (1 OR 0)	
				Change to the constitutional document by special resolution	MCM8	Y/N (1 OR 0)	

				Registrar oversight on changes to the constitutional document	MCM9	Y/N (1 OR 0)	
		Board of Directors	MCB	Majority of member directors? LT 50% = 0; GT 50% = 1 and LT 66%; GTE 66% LT 75% = 2; GT 75% = 3	MCB1	Scale 0,1,2,3	
				Limited powers by the constitution?	MCB2	Y/N (1 OR 0)	
				Notice of meeting (LTE 2 days = 0; GT 2 days = 1)	MCB3	Scale 0,1	
				Number of meetings per year (MCB4	Scale 0,1	
				Can any director call a meeting? Any 1= 1; any 2 =0	MCB5	Scale 0,1	
				Term: 3 years = 1; GT 3 years = 0	MCB6	Scale 0,1	
				Max term specified (or re-elected)?	MCB7	Y/N (1 OR 0)	
				Quorum make-up of directors (Majority member?) Not specified = 0; GTE 50% = 1 and LT 66%; GTE 66% LT 75% = 2	MCB8	Scale 0,1,2	
				Definition of a member director? (Active supplier = 2; indirect = 1; interest in an entity who has an interest = 0?)	MCB9	Scale 0,1,2	
				Allow Electronic (AV) meetings?	MCB10	Y/N (1 OR 0)	

Chapter-3 Appendix 3.3: Results of content analysis

Code	Item	NZD	NZF	NZT	NZW	AUA	AUD	AUN	Common?
	<u>Member Ownership</u>								
MOO1	Cooperative shares 1 member 1 vote (1m1v)	1	1	1	1	1	1	1	1
	Totals	1	1	1	1	1	1	1	
	<u>Member Benefit</u>								
MBB1	Surplus to members based on patronage	1	1	1	1	1	1	1	1
MBU1	Debt and security oversight	0	0	0	0	1	1	1	
MBU2	Dividends paid to cooperative members only	1	0	1					
MBD1	Dispute/ Grievance provision	0	1	0	0	0	1	1	
	Totals	1	2	1	1	2	3	3	
	<u>Membership Rules</u>								
MRR1	Common to all cooperatives and, coops in this study have no rules that impact governance.	1	1	1	1	1	1	1	1
	Totals	1	1	1	1	1	1	1	
	<u>Member Information</u>								
MII1	Statutory information - Companies Act 1993 (Annual Report/ Member meet Minutes)	1	1	1	1	1	1	1	1
MII2	Additional Information no =0; interests = 1; Registers, Interests and more = 2	0	0	0	0	0	2	2	
MIE1	Committees/ other (member attend)	0	1	0	0	1	1	0	
	Totals	1	2	1	1	2	4	3	
	<u>Member Control</u>								
	<u>Member Vote</u>								
MCV1	Vote on Appointed Directors No=0; Ratified at next GM = 1; Yes = 2	2	2	0	0	1	2	2	
MCV2	Vote on Member Directors	1	1	1	1	1	1	1	1
MCV3	Show of Hands	1	1	1	1	1	1	1	1
MCV4	Polls/ Postal votes (number): EQ 1 = 4; 5 or less = 3; Between 6 and 10 = 2; Gt 10 LT 20 = 1; Milk Share number = 0.	3	0	0	1	4	4	4	
MCV5	Vote Separate not attached to Shareholding	1	0	1	1	1	1	1	
	Totals	8	4	3	4	8	9	9	
	<u>Member Meetings</u>								
MCM1	Meeting Notice GTE 2 weeks/ 10 working days	0	0	0	0	1	0	1	
MCM2	Facilities for distant members (Electronic Attendance – AV)	0	1	0	1	0	1	0	
MCM3	Ordinary Resolution majority 51%	1	1	1	1	1	1	1	1
MCM4	Special resolution Majority, Same as Ord=0; GT Ordinary LTE 66% = 1; GT 66% = 2	2	2	2	2	0	1	1	
MCM5	Quorum LT 1% = 0; GTE 1% but LT 5% = 1; GTE 6% and LTE 10% = 2; GTE 10% and LT 15% = 3; GT 15% =4	3	0	3	1	4	2	3	
MCM6	Calling special meeting number/ votes (average is 5%) GT 0 and LTE 5 =4; GT 5 and LTE 10 = 3; GT 10 and LTE 15 = 2; GT 15 = 1	1	4	4	4	4	3	1	
MCM7	Annual General Meeting conflict (peak 3 months)	0	0	0	0	0	0	0	1
MCM8	Change to constitutional document by special resolution	1	0	1	1	1	1	1	
MCM9	Registrar oversight on changes to constitutional document	0	0	0	0	1	1	1	
	Totals	8	8	11	10	12	10	9	
	<u>Directors and Board</u>								
MCB1	Majority of member directors? LT 50% = 0; GT 50% = 1 and LT 66%; GTE 66% LT 75% = 2	0	1	0	2	3	2	3	
MCB2	Limited powers by the constitution?	0	0	0	0	0	0	0	1
MCB3	Notice of meeting (LTE 2 days = 0; GT 2 days = 1)	0	0	1	0	0	0	0	

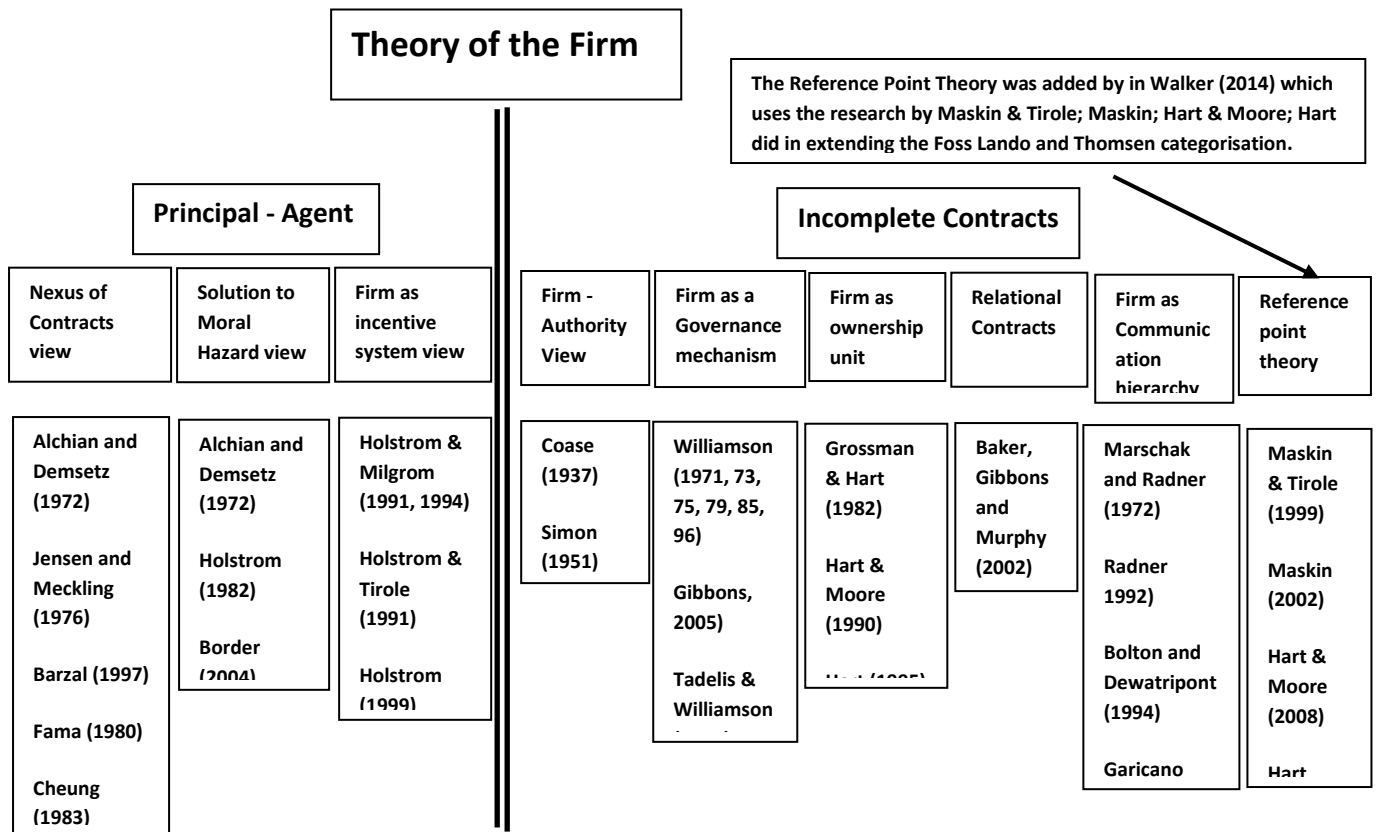
MCB4	Any director can call a meeting? Any 1= 1; any 2 =0	0	1	1	1	1	1	0	
MCB5	Term: 3 years = 1; GT 3 years = 0	1	1	1	0	1	0	1	
MCB6	Max term specified (or re-elected)?	0	0	0	0	1	0	0	
MCB7	Quorum make-up of directors (Majority member?) Not specified = 0; GTE 50% = 1 and LT 66%; GTE 66% LT 75% = 2	2	0	0	0	1	0	1	
MCB8	Definition of a member director? (Active supplier = 2; indirect = 1; interest in an entity who has an interest = 0?)	2	1	1	2	1	2	2	
MCB9	Allow Electronic (AV) meetings?	0	1	1	1	1	1	1	
	Totals	5	5	5	6	9	6	8	
	TOTALS	27	29	28	31	39	40	39	

Key New Zealand: NZD = Dairy Goat; NZF = Fonterra; NZT = Tatua; NZW = Westland

Key Australia: AUA = ADFC; AUD = DFMC; AUN = NORCO

Scale: Simple scale N=-0; Y=1; others as indicated

Chapter-4 Appendix 4.1: Theory of The Firm – Schematic



Chapter-5 Appendix 5.1: Letter to Cooperative Chairman (Generic)

The University of Waikato
Private Bag 3105
Hamilton 3240
New Zealand



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

22 January 2019

The Chairman, {Cooperative}

Attention:

|

Re: The Value of Farmer Engagement in Australasian Dairy Co-operatives

Dear {name},

We are conducting a study of Australasian dairy co-operatives. The purpose of this study is to understand member engagement and participation in their co-operative. I am sending you this letter as a matter of courtesy.

Good member engagement has been found to be essential for a co-operative to adapt and prosper in an ever-changing competitive environment. The study has already found that constructive member commitment relies on principles of co-operation, policy or co-operative laws, the constitutional document, and the removal of obstacles to effective member participation. The next stage is to now interview a sample of farmers from seven agricultural dairy co-operatives in Australasia to understand engagement.

The summarised, and anonymised, findings will be made available to you if you require. They will also be published as a chapter in a PhD dissertation and may be published in academic journals and the summarised results discussed at academic and industry conferences. We believe that the findings may be of particular interest to you when planning future member engagement initiatives.

The researcher leading the interviews is Alexander (Sandy) Malherbe, a PhD Candidate and he is more than happy to clarify any queries you might have and would welcome the opportunity to discuss this with you and your board. We request your support for this important study on dairy co-operatives. We would be grateful if you could furnish us with the name of a contact person we could use as a conduit to share information through the course of this research. This would be greatly appreciated.

Yours faithfully,

Dr Frank Scrimgeour
Professor of Economics
Head, School of Accounting, Finance and Economics
University of Waikato
scrim@waikato.ac.nz / Phone 64 7 838 4415

Please use these contact details for all correspondence:

Researcher: Alexander Malherbe
24a Chartwell Crescent, Chartwell
Hamilton 3210, New Zealand
coop_research@malherbe.net.nz / +64 (0) 27 505 4047

Chapter-5 Appendix 5.2: Generic Initial Participant Contact Email

coop_research@malherbe.net.nz

Subject: FW: Co-op research

Attachments: #2

Importance: High

Hi {name},

{name 2} gave me your name of co-operative members in the Northern area of Victoria (see below email)

I am an older (50+ years) PhD student who has worked for the past many years for co-operatives (Fonterra, RD1, and LIC). I am undertaking a PhD at the University of Waikato under Prof. Frank Scrimgeour examining Australasian dairy co-operative member engagement as part of an approved dissertation. Previous studies have shown there is a positive link between good member engagement and the overall success of the co-operative. Furthermore, it has also been found that there is global trend of declining member engagement especially when considering established co-operatives. This study involves 7 dairy co-operatives to understand critical success factors for optimum member engagement. It will be conducted as an in-depth study by means of face to face interviews with a sample of member/ farmers. The results are expected to provide you practical insights into how to improve member engagement and increase participation in your co-operative.

I have included the Participant Information sheet which has a few more details. If you have any questions at all, please let me know. I really appreciate you giving consideration to this study, I am very passionate about co-operatives as I believe they can be a great business organisational model especially for dairy farmers.

If you can please let me know what times suit you out of the below slots I will come out to you and meet. The interviews are about 40 minute (on average) long and there is no preparation work needing to be done beforehand. I will, in any case, give you a call to chat later this coming week.

Date/ Time -1

Date/ Time -2

Date/ Time -3

Kind Regards

Alexander (Sandy) Malherbe

Participant Information Sheet

Waikato Management School
Te Rauapa



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Wāikato

The Value of Farmer Engagement in Australasian Dairy Co-operatives

The Purpose of this study is to understand member engagement and participation in their co-operative.

This Research is part of a larger project which is an academic thesis exploring *Co-operative Member Voice and Influence*.

The aggregated Findings will be made available to you if requested. The co-operative organisations will be advised of this study in advance to keep them informed and copies of the aggregated anonymised findings shared with them as the findings may assist to improve member engagement. They will also be published as a chapter in a PhD dissertation and may also be published in academic journals and as conference proceedings.

The Researcher leading the interviews is Alexander (Sandy) Malherbe a PhD Candidate.

Your Role is to participate in a 40 to 60-minute audio recorded interview. The topics that will be covered in the interview may include:

- Background information on you as a farmer and your farming operation.
- How and in what form you currently take part in you co-operative and what participation you think is necessary for you as a member-owner of the co-operative.
- Your involvement in any decisions that the co-operative takes and your views on how much your involvement as a member should be.
- How much technology you use on the farm/s and what form this takes. Your views on if technology can help you with your participation and/or decision making within your co-operative.
- What challenges you see for your co-operative and any comments on how these may be resolved.

Your interview will be audio-recorded, and notes taken to ensure that all question responses are accurately captured. An anonymised transcript of your interview will be sent for you to check. All of your responses will be confidential to the researcher and his supervisors. The information will be encrypted and securely stored.

Consent for the interview will be formalised by signing the attached *Participant Consent Form* and returning this to the researcher. Participation in any research project is voluntary. If you do not wish to take part, you are not obliged to. Furthermore, you have the right to withdraw from the study at any time including up to 30 days after the interview has taken place. Deciding not to participate will not affect your relationship to the researchers; to the University of Waikato; or with the co-operative you belong to. You may keep this copy of the Participant Information Sheet.

For More Information on this project, you can contact Sandy Malherbe at +64 27 505 4047 coop_research@malherbe.net.nz; Professor Frank Scrimgeour at scrim@waikato.ac.nz Phone +64 7 838 4415, or the School of Graduate Research, Amanda Sircombe amandas@waikato.ac.nz phone: +64 7 856 2889

Participant Consent Form

Waikato Management School
Te Raupapa



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

The Value of Farmer Engagement in Australasian Dairy Co-operatives

Consent Form for Participants

I have read the *Participant Information Sheet* for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time or to decline to answer any particular questions in the study. I understand I can withdraw any information I have provided within 30 days following the interview.

I agree to provide information to the researchers under the conditions of confidentiality set out on the *Participant Information Sheet*.

I agree to participate in this study under the conditions set out in the *Participant Information Sheet*.

Signed: _____

Name: _____ Date: _____

I furthermore agree/ do not agree for my responses to be audio-recorded and transcribed. I understand that I can receive an anonymised copy of the transcript if I request one.

Signed: _____

Name: _____ Date: _____

Researcher's Name and contact information:

Alexander (Sandy) Malherbe
Phone: +64 27 505 4047
Email: sandy@malherbe.net.nz

Supervisor's Name and contact information:

Professor Frank Scrimgeour
Email: scrim@waikato.ac.nz
Phone 64 7 838 4415

Chapter-5 Appendix 5.5: List of Semi-Structured Questions used

Full Project Title: Member Voice and Influence: A study of New Zealand and Australian Dairy Cooperative Member Governance

Background questions

1. Can you tell me what your herd-size is currently, and/or how much Milk you supplied to your co-operative and/or how many kilograms of Milk Solids you produced?
2. How long have you been part of your co-operative? Were you part of a different organisation also in the dairy industry before you joined your co-operative? What organisation and why did you leave and why did you join your co-operative?
3. How loyal are you to your co-operative on a scale of 1 to 10, 1 being not loyal and likely to move in the next few months, 10 being extremely loyal and not likely to move at all at this stage. And why did you answer the way you did?
4. Are you involved with any other co-operative or organisation? If so, can you elaborate on your relationship with the other entity/entities?
5. What is your current overall satisfaction with your co-operative on a scale of 1 to 10? (1 being not at all satisfied, 10 being extremely satisfied).
6. What technology is used on-farm for communication between you and your co-operative? (PC/ Laptop, Tablet, smartphone, etc.). What applications are used by you that relate to your coop?

Engagement questions

Lead-in: Engagement can be described as how “connected” you are to your co-operative. This section looks at your perception of how connected you are to your co-operative and the underlying reasons.

7. Did you attend the last general meeting? Was this in person, via a proxy or via audio/ teleconference facilities?
8. Over the past 12 months, please describe what contact or engagement you have had with the co-operative organisation (includes a council, a committee, Directors, others) either on-farm or elsewhere.
9. I would like to know about the effectiveness of the current meetings and mechanisms or engagement between any part of the cooperative and yourself.
10. Have you had any contact with any other members of the co-operative over the past year besides the AGM? Was this formal or an informal meeting? Where any topics discussed that related to the co-operative?
11. When last did you have a query for the co-operative on any matter and how did you go about resolving the query? Were you satisfied with the way the co-operative answered your query?
12. Is there anything that would help you be more involved with your co-operative? If so, what would this be? If not, please elaborate.
13. Exploring the cooperative relationship, what are your views on working closer with your cooperative on governance and what mechanisms can be used to facilitate these discussions?

Governance questions

Lead-in: Co-operatives operate under the law of the country; the laws are usually based on an understanding of the principles of co-operation. Furthermore, the law usually mandates what the contents of the constitutional document contain. Governance of the co-operative can be seen as a combination of policy, the governance artefacts, the forums and obviously the board of directors.

14. How familiar are you with the co-operative law and/or the co-operative constitutional document? Do you think it is important to have an understanding of your co-operative constitutional provisions, why or why not? If you are not familiar with your constitutional document, what would help you gain this understanding?
15. In general terms, please describe any information, data or knowledge that you have received from your cooperative in the past 12 months, which relate to any decisions made or to be made? In your experience, what forums and mechanisms are available for farmers to ask questions?
16. How often are people and organisations other than farmers involved in the forums? Can you tell me about the role they play? Could you suggest any ways the cooperative could improve information or data sharing that relates to member governance and mechanisms might be improved?

17. What major decisions in your mind has the co-operative made in the past 3 years that you are aware of. For example, these might include an acquisition, divestiture, creation of a subsidiary, a restructure in a joint venture, others. Looking at the past 3 years' major cooperative initiatives and decisions, could you explain your general involvement in each of these? If you were theoretically in disagreement about a particular direction that the cooperative is taking, what options and mechanisms are available to you to find out the necessary information you require in order to make an informed decision?
18. Could you explain what involvement you think is appropriate in the general running of the cooperative when decisions are made that affect the farm gate price, the leverage of assets in the cooperative, and the establishment of an offshore marketing presence (or manufacturing site)?
19. Regarding technology for use in governance, do you know what your co-operative allows in terms of electronic attendance, voting on resolutions, information requests, other uses? Can you describe your view regarding the use of technology to improve or support, engagement and/or governance?
20. How familiar are you with the Dairy Industry Restructure Act 2001 (DIRA 2001) that the government is reviewing?
 - farmers must be able to enter and exit Fonterra without restriction or penalties (with minimal exceptions)
 - independent processors must be able to obtain limited amounts of raw milk from Fonterra
 - shareholding farmers can supply up to 20% of their weekly production to independent processors
 - the Commerce Commission must report annually on the way Fonterra sets the base milk price.

4-Hats questions (data collected but not part of this thesis)

Lead-in: Previous research has shown that each co-operative member wears four hats, including investor (shareholder), Patron (supplier), Owner, and member of a community of purpose. {Interviewer will explain each of the "hats" to the member}

21. Out of these "hats" which one would you most closely identify with and why?
22. Which "hat" would you least identify with and why?
23. What could improve your alignment with each of the hats:
 - Investor (Shareholder/ Financial)
 - Patron (Supplier)
 - Owner (Control)
 - Community Member (Your coop community and your community)

Policy Support question

24. Examining your understanding of policy what policy/ regulation, in your opinion, needs to be improved to support overall cooperative member voice